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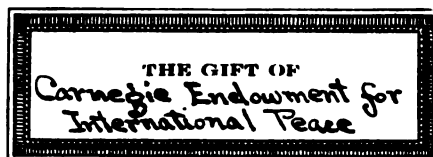
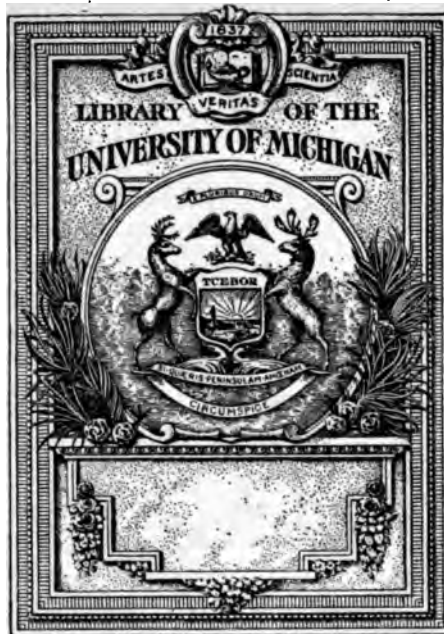
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The Consortium

The Official Text of the Four-Power Agreement for a
Loan to China and Relevant Documents

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
DIVISION OF INTERNATIONAL LAW
PAMPHLET NO. 40



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Pamphlet Series of the
Carnegie Endowment for International Peace
Division of International Law
No. 40

THE CONSORTIUM

**The Official Text of the Four-Power
Agreement for a Loan to China
and Relevant Documents**

WASHINGTON
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1921

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

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NOTE

A Conference on the Limitation of Armament was called on August 11, 1921, by the Government of the United States, to meet in Washington on November 11, 1921, the third anniversary of the signing of the armistice between the victorious Allied and Associated Powers and Germany.

The representatives of the Powers originally invited to the Conference were the British Empire, France, Italy, and Japan, for the consideration of the question of the limitation of armament, and China for the discussion of Pacific and Far Eastern Questions. Later, representatives of Belgium, the Netherlands and Portugal were invited to take part in the discussion of questions concerning the Pacific.

The tentative program agreed upon embraces the following subjects:

Limitation of Armament

1. Limitation of naval armament, under which shall be discussed:
 - (a) Basis of limitation.
 - (b) Extent.
 - (c) Fulfillment.
2. Rules for control of new agencies of warfare.
3. Limitation of land armament.

Pacific and Far Eastern Questions

1. Questions relating to China.
 - First: Principles to be applied.
 - Second: Application.
 - Subjects:
 - (a) Territorial integrity.
 - (b) Administrative integrity.
 - (c) Open door—equality of commercial and industrial opportunity.
 - (d) Concessions, monopolies or preferential economic privileges.
 - (e) Development of railways, including plans relating to Chinese Eastern Railway.
 - (f) Preferential railroad rates.
 - (g) Status of existing commitments.
2. Siberia (similar headings).
3. Mandated islands (unless questions earlier settled).
 - Electrical communications in the Pacific.

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Carnegie Endowment for International Peace, 1-24-22, g

Under the heading of "Status of Existing Commitments" it is expected that opportunity will be afforded to consider and to reach an understanding with respect to unsettled questions involving the nature and scope of commitments under which claims of rights may hereafter be asserted.

In the belief that the dissemination of information regarding the status of armaments, the collection of official documents throwing light upon the situation in the Pacific, and the furnishing of accurate accounts of the issues involved in some of the more important problems confronting the Conference, would render a service to the public and perhaps even to the delegates to the Conference, the Carnegie Endowment for International Peace has undertaken the preparation and publication of a series of pamphlets of which the present pamphlet is one. The reader will find other documents on the Consortium in the British Parliamentary Paper, *Correspondence respecting the New Financial Consortium in China*, Miscellaneous No. 9 (1921) [Cmd. 1214].

The meeting of so many nations in conference, following upon the close of a great war, is in itself an event of no mean importance. The holding of a conference upon the limitation of armament in succession to the First Hague Peace Conference called to consider the burden of armaments and the means for its decrease, with the possibility of an agreement in conference upon some of the questions of international import in addition to armaments, is an indication that the world is returning to "normalcy" and turning to the experience of The Hague.

That the Conference may be successful in all the phases of its program should be the desire of men and women of good-will in all parts of the world.

JAMES BROWN SCOTT,
Director.

WASHINGTON, D. C.,
November 10, 1921.

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THE CONSORTIUM

The Official Text of the Four-Power Agreement for a Loan
to China and Relevant Documents

1. Letter of certain American Bankers to the Department of State,
July 8, 1918, regarding Proposed Loan to China

NEW YORK CITY, July 8, 1918.

HONORABLE ROBERT LANSING,
Secretary of State,
Washington, D. C.

SIR:

We have been giving very earnest consideration to the suggestion you made in Washington respecting a loan to China, and wish in the first place to assure you of our disposition to be of service in the matter, and to help in finding some way in which the wishes of the administration can be carried out.

In the course of our discussion the following points have seemed to us to be fundamental:

FIRST: An arrangement of this sort which contemplates transactions spread over a considerable period of time, in our opinion should be made on the broadest basis in order to give the best protection to our investors, and with the right foundation established confidence would follow and anxiety and jealousy disappear. At the conference held in Washington recently there was mentioned as a course perhaps advisable that Americans and Japanese cooperate in a loan to China. We are disposed to believe that it would be better if such international cooperation were to be made broader. We suggest therefore, that this can best be accomplished if a four-power group be con-

stituted consisting of financial members to be recognized by the respective Governments of Great Britain, France, Japan and the United States; our Government to recognize as their member of such group the American banks or firms which may become associated for this purpose, and which we should hope to have representative of the whole country. Although under the present circumstances it would be expected that Japan and the United States should carry England and France, such carrying should not diminish the vitality of their memberships in the Four-Power Group.

One of the conditions of membership in such a Four-Power Group should be that there should be a relinquishment by the members of the Group either to China or to the Group of any options to make loans which they now hold, and all loans to China by way of them should be considered as Four-Power Group business. Through cooperation of England, France, Japan and the United States much can be accomplished for the maintenance of Chinese sovereignty and the preservation of the "open door;" and, furthermore, such cooperation might greatly facilitate the full development of the large revenue sources from only a very few of which China at present realizes a satisfactory income.

It would seem to be necessary if now and after the war we are successfully to carry out the responsibilities imposed upon us by our new international position, that our Government should be prepared in principle to recognize the change in our international relations, both diplomatic and commercial, brought about by the war.

SECOND: We have considerable doubt whether under the present circumstances the people of the United States could be induced to buy the debt of any foreign country on any terms. We feel quite certain that no loan could be sold unless the Government would be willing at the time of issue to make it clear to the public that the loan is made at the suggestion of the Government; with such an announcement we think it possible that a reasonable amount of Chinese loan could be placed in this country.

If these two fundamental conditions are agreed to by our Government we hold ourselves at your disposal to go further into

the details of any proposed loan, and will cooperate with you most earnestly and sympathetically.

Yours very truly,

(Signed) J. P. MORGAN AND COMPANY.

KUHN, LOEB AND COMPANY.

THE NATIONAL CITY BANK OF NEW YORK,
By F. A. VANDERLIP, *President*.

FIRST NATIONAL BANK, NEW YORK,
by GEO. F. SABIN, JR., *Vice-President*.

CHASE NATIONAL BANK,
E. R. TINKER, *Vice-President*.

CONTINENTAL & COMMERCIAL TRUST & SAVINGS
BANK, Chicago,
by JOHN JAY ABBOTT, *Vice-President*.

LEE, HIGGINSON & COMPANY.

GUARANTY TRUST COMPANY OF NEW YORK.

2. Letter of the Department of State to the Bankers, July 9, 1918,
outlining conditions of the Consortium

July 9, 1918.

Messrs. J. P. Morgan and Company,
Messrs. Kuhn, Loeb and Company,
National City Bank of New York,
First National Bank of New York,
Chase National Bank,
Continental & Commercial Trust & Savings Bank,
Messrs. Lee, Higginson and Company,
Guaranty Trust Company of New York,
New York City.

GENTLEMEN:

Your letter of July 8, 1918, has had my very careful consideration. It contains several elements of an important nature which I will take up in order.

This war has brought the countries of Great Britain, France, Japan, the United States and some others into a state of harmony

and helpfulness, and has supplanted an intense spirit of competition by a spirit of mutuality and cooperation in matters relating to their interests abroad. Doubtless this situation is in a measure due to the absence of capital seeking foreign investment at the present time because of the demands upon it for war purposes.

If international cooperation is necessary, as seems to be the case, for the successful flotation of the proposed loan, I realize that the support of Great Britain and France would be desirable even if it should be necessary for the United States and Japan to carry for the time being their respective portions of the loan. All four powers are of course deeply interested in any measures taken to strengthen China and fit her for a more active part in the war against the central European powers. Japan is already considering rendering financial assistance, while two of the loans that have been mentioned as desirable are loans by which the interests of British and French citizens would be directly affected and it would, of course, be unwise to undertake their negotiation without consulting parties so immediately concerned.

In these circumstances the formation of a four-power group to consist of financial interests of the United States, Great Britain, France and Japan to deal with the Government of China for purposes of making loans to that Government seems advisable and it is my hope that in this way the whole subject of finance in China can ultimately be treated in a broad way. If the terms and conditions of each loan are submitted to and approved by this Government, and the other cooperating Governments and by the Government of China, this Government would not only interpose no objection, but, on the contrary, would consider such an arrangement an assurance that the welfare of China and the proper interests of the other Governments were of such a mutual character as to permit of close and friendly intercourse for their common good. I think that I should say frankly that this Government would be opposed to any terms or conditions of a loan which sought to impair the political control of China or lessened the sovereign rights of that Republic.

In response to your inquiry, as to whether the Government would be willing at the time of its issue so state that the loan was being made at the suggestion of the Government, I will say that

the Government has suggested that this loan be made and would have no hesitancy in formally stating that fact at the time of issue.

The question of relinquishment by the members of the American Group of any options to make loans now existing in favor of any of them seems to be a reasonable condition of membership in that group. Such relinquishment by a member of a foreign group is a matter over which this Government would have no control. However, I may say that if the members of the American Group come to the conclusion that they desire it, this Government will use its good offices, in so far as it can properly do so, to bring about such relinquishment.

The war has created a community of interest between certain governments and their citizens and those of other governments and has broken down barriers that once have existed and made easier the intercourse between them. With the consequent expansion of our interests abroad there must be considered also the element of risk which sometimes enters into the making of loans to foreign governments and which is always inseparable from investments in foreign countries where reliance must be placed on the borrower's good faith and ability to carry out the terms of the contract. This Government realizes fully that condition and in order to encourage and facilitate that free intercourse between American citizens and foreign states which is mutually advantageous is willing to aid in every proper way and to make prompt and vigorous representations and to take every possible step to insure the execution of equitable contracts made in good faith by its citizens in foreign lands.

Your suggestion that the members of the proposed American Group may be representative of the whole country is one which is entirely satisfactory since it removes a possible ground of objection. Various sections of the country are interested in enterprises of this character and undoubtedly would be glad to join any constructive movement such as is proposed. As so much depends upon the proper organization of the American financial group I assume that in the event of its formation you will submit the names of the proposed members to the Government before a final organization is made.

The spirit of cooperation you manifest is very gratifying and you are assured of the interest of the Government and of all proper aid which it can render in bringing this matter to a satisfactory conclusion.

I am, Gentlemen,
Your obedient servant,

ROBERT LANSING.

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3. Note of the British Foreign Office to the American Embassy,
London, August 14, 1918, regarding American Proposal

Foreign Office, S. W. 1.,
August 14, 1918.

YOUR EXCELLENCY:

I have the honor to inform Your Excellency that I have now received from Washington the full text of the letters exchanged between the United States Secretary of State and certain leading American banks relative to the proposal to form a new Four-Power Group for the purpose of making a loan to China.

His Majesty's Government welcome the decision of the United States Government to encourage the formation of a group of American banks to cooperate with similar British, French and Japanese Groups in affording financial assistance to China and they are prepared to assent in principle to the proposal to constitute a new Four-Power Group in the place of the existing international Consortium.

There are, however, certain points arising out of the correspondence communicated to His Majesty's Government which in their opinion call for further elucidation in order that they may be in a position to appreciate fully the scope of the American proposals.

In the first place it would appear that it was decided at the conference held in Washington prior to the exchange of the letters that it was desirable that a loan should be made to China by the proposed Four-Power Group, and Mr. Lansing in signifying his

acquiescence in that view in his letter of July 9th indicated that the object of such a loan would be to strengthen China and fit her for a more active part in the war against the central European Powers.

As Your Excellency is aware the only loan to China which is now under consideration by the existing international Consortium is a projected issue of a Second or Supplementary Reorganization Loan of twenty million pounds for currency reform purposes in respect to which the Japanese Group have already made two advances to the Chinese Government. It is not clear whether the American Group contemplate participating in this loan which is now in course of negotiation with the Chinese Government and carrying the shares of the British and French Groups by arrangement with the Japanese Group or whether they have in view an entirely different financial transaction. The correspondence exchanged between the Banks and the Secretary of State does not mention the amount of the projected loan, the revenues on which it is to be secured or the purposes to which it is to be applied.

Again, the scheme proposed by the United States Government and the American Banks appears to contemplate not only the prompt issue of a special loan to China by the Four-Power Group, but also the issue of other loans by that body. His Majesty's Ambassador at Washington was accordingly instructed to enquire whether it was the intention of the United States Government to confine the activities of the new Four-Power Group to making administrative loans to the Chinese Government or whether the new Consortium would be empowered also to make loans for industrial and railway enterprises in China. Lord Reading has replied that he is informed by the State Department that so far as concerns the American Group now forming under the agreement between the Department and the bankers it is the expectation of the Department that industrial loans will be made as well as those for administrative purposes.

I must explain to Your Excellency that this question of the scope of the Four-Power Group's financial activities is a matter of considerable importance in view of the decision taken at the Inter-Group Conference held in Paris on the 26th September,

1913, by the Representatives of the British, French, German, Russian and Japanese Groups in the International Consortium when it was resolved and agreed that the provisions of the Sextuple Agreement should no longer apply to industrial and railway loans. The meeting was informed by the Chairman that a communication had been received from the American Group stating that they agreed to the unconditional elimination of industrial loans from the scope of the Sextuple Agreement. His Majesty's Government were impelled to agree to the modification in this sense of the Sextuple Agreement of 1912 by the desire of the Japanese Government to resume their freedom in respect to industrial loans and also by pressure from independent banking and other interests outside the British Group which made it impossible for them to continue to recognize the British Group in the Consortium as alone entitled to their official support for the financing of industrial enterprises in China. Your Excellency will understand that in these circumstances it would be difficult for His Majesty's Government, and presumably for the other Governments concerned, to agree to the revival of the Sextuple Agreement of 1912 in so far as it purports to prohibit the independent conclusion of industrial loans, supposing that it is the intention of the United States Government to renew the original Six-Power contract in the form of a Four-Power contract and to seek the consent of the participating Governments to the principle guaranteeing exclusive official support to their respective Groups for the negotiation of industrial as well as of administrative loans.

The letters exchanged between the American bankers and the Secretary of State also deal with the question of the relinquishment to China or to the Four-Power Group as a whole of any options on loans now held by the individual members or Groups. I have to observe that so far as administrative loans to China are concerned which alone fall within the scope of the existing Consortium's activities, there is only one option held by individual members of that body, viz: an option for a currency reform loan held by the British and French Groups, and previous to China's declaration of war on the Central Powers, by the German Group. The currency reform loan has, with the consent of the British

and French Groups, been incorporated into the Supplementary Reorganization Loan and should the American Group agree to cooperate with the British, French and Japanese Groups in raising such a loan it would naturally participate in any advantages which the possession of this option confers on the original holders.

Should it be the intention, however, of the United States Government to invite the other Governments to induce their respective Groups to agree to the relinquishment in favor of the new Four-Power Group of options on industrial and railway loans held by those Groups or their individual members. I fear that such a proposal would present considerable difficulty and the question would have to be examined very carefully in consultation with the British interests involved before His Majesty's Government could express any opinion and still less signify their concurrence in the suggestion.

Finally I notice that in his answer to the American bankers' letter Mr. Lansing states that the United States Government would be opposed to any terms or conditions of a loan which sought to impair the political control of China or lessened the sovereign rights of that Republic. His Majesty's Government presume that in making this statement the Secretary of State did not mean to imply that the United States Government would not entertain favorably any loan scheme submitted for their approval by the American Group which provided for foreign control of the collection of the revenues earmarked as security for the loan, such as exists in the case of the loans secured on the Chinese Maritime Customs Revenues and on the Salt Gabelle. Similarly His Majesty's Government conclude that the United States Government would not consider, for example, the appointment under the terms of a currency reform loan of a foreign adviser to supervise the introduction of currency reforms in China as an infringement of that country's sovereign rights. I venture to suggest that the favorable consideration of the American proposal would be facilitated if His Majesty's Government and the other Governments concerned could be reassured as to the precise intentions of the United States Government in this matter.

There is one further point which, although it is not a matter

of urgency or likely to impede in any way the realization of the Four-Power Group project, should, I think, be brought to the notice of the United States Government. Towards the end of last year the British, French, Russian and Japanese Governments finally agreed to the inclusion of a Belgian Group in the existing Bankers' Consortium in China. It was, however, stipulated that the admission of Belgium into the Consortium should only take effect after the war.

I have the honor to be with the highest consideration,

Your Excellency's most obedient humble servant,

A. J. BALFOUR.

His Excellency,

The Honorable

W. H. PAGE.

4. Note of the Department of State to the French, British and Japanese Embassies at Washington, October 8, 1918, enclosing Memorandum outlining American Plan

October 8, 1918.

No. 2249.

EXCELLENCY:

On July 10, 1918, I had the honor to communicate to Your Excellency copies of confidential letters exchanged between certain American bankers and myself on the subject of the formation of an American Group for the purpose of rendering financial assistance to China.

As appeared from the correspondence above referred to, it was the thought of this Government that the newly formed American Group should be representative of the whole country and should include in its membership such banks as had a present interest in China as well as such banks as might desire to join the Group and were acceptable both to the other members of the Group and to this Government. Thirty-one banks have now joined the American Group and are representatives of all sections of the country.

It was considered by all to be a reasonable condition of membership in the American Group that all preferences and options for loans to China held by any member of this Group should be shared by the American Group as a whole, and that all future loans in China which have any governmental guarantee should be conducted in common as Group business, whether it was for administrative or for industrial purposes.

Such, in brief, were the principles underlying the formation of the American Group so far as its own organization was concerned. It was the intention that all loans of the American Group shall be automatically shared with and conducted in common by the International Group when formed. It was frankly recognized that the war had created such a mutuality of interests between certain Governments and peoples as to render their cooperation essential to any constructive program of financial assistance to China. It was, therefore, the earnest hope of the Government of the United States that the other Governments which were largely interested in China and in a position to render substantial assistance at this time—namely, France, Great Britain and Japan—might see fit to join with this Government in its proposed plan and consent to the formation of similar national groups organized on the same basis to cooperate with the American Group; for it was and is the firm conviction of this Government that only by such cooperation, and upon such principle, can the best results be obtained for China and for the common interests of the other Powers concerned.

If each of the four Governments should form a group of its own which should include all those who have made or would like to make loans to China, and if each member should share with the other members of its national group all future loans, including those to which it has a preference or on which it has an option, there could be little or no objection in the financial circles of the respective governments to such an arrangement.

Then if each of the four national groups should share with the other national groups any loans to China, including those to which that national group may have a preference or on which it may have an option, and all such business arising in the future, it is felt that the best interests of China would be served,—

a purpose which the Government of the United States has, in all sincerity, felt would have the cordial support of all the Powers which have at heart the welfare of China.

The Government of the United States, in making its proposal was of course not unaware of the so-called "Five-Power Consortium." It was not the purpose, however, of this Government in suggesting the formation of a new international Group to interfere with any of the rights of that Consortium. It was hoped that, as in the case of the American Group, the new national groups to be formed might be made so broad as to include the members of the former Consortium as well as others who had legitimate claims to such inclusion, so as to meet the larger needs and opportunities of China in a spirit of harmony and of helpfulness rather than of harmful competition and of self-interest.

The proposal as presented has given rise to various inquiries on the part of the several Governments to which it was addressed and I have the honor to hand to Your Excellency herewith a memorandum covering the main points as raised. I should be happy if you would be so good as to convey the information therein contained to your Government and solicit its favorable consideration and approval.

Accept, Excellency, the renewed assurances of my highest consideration.

ROBERT LANSING.

Enclosure:

Memorandum.

893.51

MEMORANDUM

The Government of the United States is gratified at the cordial reception given, in principle, to the general plan for loans to China as recently presented to the respective interested Governments.

This Government is now happy to reply, in the following sense, to the several requests of those Governments for further information as to certain features of the proposed plan:

1. It is not intended that the American Group, recently formed, should rejoin the existing Consortium, but that there should be organized a new International Group, consisting of

representative financial institutions of the United States, Japan, Great Britain and France.

The plan, as proposed by the Government of the United States, does not contemplate that the former Consortium should necessarily be dissolved, but that each of the Governments concerned should arrange for the formation of its own national group which it is hoped might be made so comprehensive as to include all those parties interested in the former Consortium and such others, not so associated, who are engaged, or might engage, in loans to China, as well as any others whose participation might be desired.

Nor did the American Government, in making its proposal, have any specific loan in mind, but was endeavoring to lay down some general rule for future activities which might, in a broad way, meet the financial needs and opportunities in China. It was for this reason that no specific reference was made to the amount of the loan or loans to be raised, the revenues to be pledged or to the precise objects of the proposed loan. It was contemplated that these questions would be determined in respect to each case as it might arise.

With respect to the Second or supplementary Reorganization Loan for purposes of Currency Reform, this Government is prepared to state in advance that it would be ready to recommend to the American Group that it should not only take a part in that loan but be prepared to carry also, in conjunction with the Japanese Group, the shares of the British and French Groups, not only in this particular loan should it be included in the business of the new International Group, but in such other loans as may develop while circumstances are such as to prevent their more active participation.

2. The reference to "a relinquishment by the members of the Group either to China or to the Group or any options to make loans which they now hold" applied primarily to the American Group alone and to an agreement between the banks and the United States Government, whereby all preferences and options for future loans in China having any Governmental guarantee and held by the individual members of the American Group should be relinquished to the Group which should, in turn, share them with the International Group. Such relinquishment of options was considered by this Government to be a reasonable

condition of membership in the American Group; and while it is recognized that such interested Government must necessarily make its own arrangements with its own national group; it is submitted that it is possible properly to conduct the business of the International Group only by similar relinquishment to the respective national groups by the individual banks forming those groups, without distinction as to the nature of the options held.

3. The proposal of the Government of the United States contemplated that industrial, as well as administrative loans should be included in the new arrangement for the reason that, in practice, the line of demarcation between these various classes of loans often is not easy to draw. Both alike are essential fields for legitimate financial enterprise and both alike should be removed from the sphere of unsound speculation and of destructive competition. The intention of this Government was to suggest, as a means to that end, that the interested Governments should, by common consent, endeavor so to broaden the membership in the newly formed national groups that all financial firms of good standing interested in such loans might be included in the respective groups, and should withhold their support from independent financial operations without previous agreement of the interested Governments.

As regards the Inter-Group Conference held in Paris, September 26, 1913, and the agreement to which the American Group adhered, stating that they had no objection to the elimination of industrial loans, it can only be said that the American Group prior to that had withdrawn from active participation in the Consortium and was, therefore, not in a position to object; but that it is now felt that with the establishment of a new group, the question may properly be reconsidered.

4. The expression "any terms or conditions of a loan which sought to impair the political control of China or lessen the sovereign rights of that Republic" had reference only to the future activities of the American Group and was not intended to call in question the propriety of any specific arrangement in operation between the former Consortium and the Chinese Government, or between any other Government and the Chinese. It can be

definitely stated that the United States Government did not mean to imply that foreign control of the collection of revenues or other specific security pledged by mutual consent would necessarily be objectionable, nor would the appointment under the terms of some specific loan of a foreign adviser—as, for instance, to supervise the introduction of Currency Reform.

6. With respect to the Russian and Belgian Groups and their rights in the former Consortium, no present action is contemplated either by way of reservation as to the old or of participation in the new Group. As previously stated, it is not anticipated that the existing Consortium will necessarily be dissolved nor, on the other hand, do present conditions warrant the expectation that effective Russian and Belgian national groups could readily be formed at this time.

It is not the intention, however, of this Government to ignore, much less to exclude, any just claim of participation in the new International Group, but merely, for practical considerations arising out of the war, to associate the interests of the Governments now so closely and actively associated and most able to finance the proposed loans to China, and to reserve for future consideration the inclusion of any other groups of friendly powers which may, at a later time, be in a position effectively to cooperate.

5. Note of the British Foreign Office to the American Embassy at London, March 17, 1919, accepting American Plan

No. 37459/10. F.

Foreign Office, S. W. I.,
March 17, 1919.

SIR:

With reference to the note from the United States Ambassador of the 24th ultimo and to previous correspondence respecting the proposal of the United States Government for the formation of a new International Consortium to provide loans to China, I have the honor to inform you that His Majesty's Government have, after careful consideration, decided to authorize a British group to enter the Consortium under the conditions suggested by the United States Government.

The United States scheme as understood by His Majesty's Government may be summarized as follows:

1. It is proposed to establish a system of international cooperation in Chinese finance in the shape of a Four-Power Consortium, comprising Great Britain, France, the United States and Japan, each Power constituting a representative group of Banks and Financial Houses, without prejudice to the claims of Belgium and Russia to be included at a later date.

2. The four Groups will share equally in all Chinese Government guaranteed loans, industrial as well as administrative and financial, which involve a public issue, but financial operations not involving a Chinese Government guarantee or a public issue will remain open to all.

3. The groups will pool all existing and future options, except such concessions as may be already in operation.

4. Each national group will receive the active and exclusive support of its Government in the sphere thus indicated.

The acceptance of these proposals, as was pointed out to the late Mr. Page by Mr. Balfour in a note dated August 14, 1918, involves a complete reversal of the policy adopted by His Majesty's Government in 1913 when it was decided to exclude industrial loans from the scope of the Consortium's activities, but so convinced are His Majesty's Government of the urgency, in the interests not only of China herself, but also of foreign trade and finance, of adopting some system to ensure the proper control of loans to the Chinese Government, that they have determined to depart from their previous attitude and to authorize on certain conditions the participation of a British Group in a Consortium constituted on the lines suggested by the United States Government.

These conditions comprise the enlargement of the British group in such a manner as to make it representative of the banks and financial houses of this country interested in loans to China and the pooling by the various members of the group of all their existing as well as future options for such loans. Further the inclusion of industrial loans in group business is subject to the understanding that the promise of support by His Majesty's Government applies solely to the financial side of such loans,

that the British group is prepared—as is also, I am given to understand, the United States Group—to dissociate itself from the industrial side and while providing for the flotation of the loans, to put up to public tender the contracts for the execution of the engineering or other works to be built out of the proceeds of the loans and for the supply of the necessary materials.

On these conditions His Majesty's Government have authorized the British Group to participate in the operations of the proposed International Consortium and have guaranteed to it exclusive official support as regards all future public loans to China which involve a Government guarantee and a public issue, whether for industrial, administrative or financial purposes. At the same time I must add that any financial assistance to China on a large scale from this country can not be looked for at the present moment, as, having regard to the heavy pressure on the capital resources of this country for reconstruction purposes and to the consequent restrictions imposed on capital borrowing in the London market, His Majesty's Government have only been able to assent to British participation in the Consortium on the understanding that any loan to China in the near future must be of very moderate dimensions and that the share of the British Group should be carried by the United States Group, in conjunction with the Japanese Group, in the manner suggested in the memorandum which formed the annex to the note addressed by Mr. Lansing to the British Chargé d'Affaires on October 8, 1918.

Finally I beg to state that I am in complete agreement with the view expressed in Mr. Davis' note of the 24th ultimo, that the question as to what joint agreements should be included in the practical working of the Consortium and what options surrendered could be most easily settled through negotiations between the Groups, subject of course to the approval of the respective Governments and I am instructing the representatives of the British Group accordingly.

I have the honor to be, Sir,
with high consideration,

Your most obedient humble servant,

(FOR EARL CURZON OF KEDLESTON),

(Signed) J. A. C. TILLEY.

6. Identic Note of the Department of State to the French, British and Japanese Embassies at Washington, May 31, 1919, transmitting resolutions adopted at Paris meeting of Bankers

May 31, 1919.

SIR:

Referring to Mr. Lansing's note of October 8, 1918, I have the honor to inform you that at a meeting of representatives of the banking groups of Great Britain, France, Japan and the United States, held at Paris on May 12, 1919, with the sanction of their respective Governments, for the purpose of organizing an International Group for financial business in China, the enclosed resolutions were unanimously adopted, subject to confirmation by the Governments concerned.

The Government of the United States, on its part, accepts and confirms the above resolutions and it is hoped that His Britannic Majesty's Government will promptly give like confirmation in order that the formal organization of the new Consortium may be completed, prior to the expiration of the old Consortium agreement on June 18 next.

Accept, Sir, the renewed assurances of my high consideration.

(Signed) BRECKINRIDGE LONG,
Acting Secretary of State.

Enclosure:
Resolutions.
893.51/

7. Note of the British Embassy at Washington to the Department of State, June 17, 1919, regarding resolutions adopted at Paris meeting of Bankers

British Embassy, Washington,
June 7, 1919.

SIR:

I have the honor to acknowledge the receipt of your note of May 31st (893.51), in which you enclosed copies of resolutions adopted at a meeting of Representatives of the Banking Groups of Great Britain, France, Japan and the United States held at Paris on May 10 and 12, 1919, and enquired whether His Majesty's Government would confirm these Resolutions. I did not fail to communicate this enquiry by telegraph to the Foreign

Office and have now received a reply to the effect that His Majesty's Government have considered carefully the Minutes of the two Meetings and the draft of the International Group Agreement, and have informed the Hongkong and Shanghai Bank that they meet with their approval with the exception of the statement in the preamble of the agreement that the Groups are entitled to the exclusive support of their respective Governments. This is not the case so far as the relation between His Majesty's Government and the British Group is concerned, as the latter have hitherto failed to comply with the conditions on which alone His Majesty's Government are prepared to guarantee exclusive official support.

I have the honor to be,

With the highest consideration,

Sir,

Your most obedient, humble servant,

(Signed) COLVILLE BARCLAY.

The Honorable

FRANK L. POLK,

Acting Secretary of State of the United States.

8. Letter of Mr. M. Odagiri to Mr. Thomas W. Lamont, June 18, 1919, proposing the exclusion of Manchuria and Mongolia from Consortium

The Yokohama Specie Bank, Limited,

7, Bishopsgate, London,

June 18, 1919.

T. W. LAMONT, Esq.,

Messrs. MORGAN, GRENFELL & Co.,

22, Old Broad Street, E. C. 2.

DEAR SIR:

With reference to our interview in Paris, and Mr. Tatsumi's conversation with you on the 16th instant in connection with the proposed new Consortium for Chinese business, for your information I would wish to communicate to you that we have been instructed by our principals in Japan that all the rights and options held by Japan in the regions of Manchuria and Mongolia, where Japan has special interests, should be excluded from the arrangements for pooling provided for in the proposed agreement.

This is based on the very special relations which Japan enjoys geographically, and historically, with the regions referred to, and which have been recognized by Great Britain, the United States, France and Russia on many occasions. In this connection I would wish to specially draw your attention to a Note from the Secretary of State to the Japanese Ambassador, dated Washington, November 2, 1917.

Furthermore, the following matter which was dealt with under the present Group Agreement, was reserved by the Japanese Group at the time of signature of the Chinese Reorganization Loan Agreement:

On the 18th June, 1912, at a meeting of the Six Groups held in Paris, when discussing the agreement for the Chinese Reorganization Loan about to be issued, the following declaration was made by Mr. Takeuchi on behalf of the Japanese Group and was recorded in the minutes of the Conference:

"The Japanese Bank declared that it takes part in the loan on the understanding that nothing connected with the projected loan should operate to the prejudice of the special rights and interests of Japan in the regions of South Manchuria and of the Eastern portion of Inner Mongolia adjacent to South Manchuria."

I should be very much obliged if you would give the foregoing matter your careful consideration and with my best thanks in advance,

I remain,

Yours faithfully,

(Signed) M. ODAGIRI.

9. Letter of Mr. Thomas W. Lamont to Mr. M. Odagiri, June 23, 1919, regarding exclusion by Japan of Manchuria and Mongolia from Consortium

Hotel de Crillon,
Paris, June 23, 1919.

MR. M. ODAGIRI,
Hotel St. James et d'Albany,
211, rue St. Honoré,
Paris.

DEAR SIR:

I have before me your letter of June 18, delivered to me at London and communicating to me for the information of the

American Group the instructions which you have received from Tokyo as to "the rights and options held by Japan in the regions of Manchuria and Mongolia where Japan has special interests." You have, as I understand it, sent a letter in a similar sense to Sir Charles Addis, of the Hongkong and Shanghai Banking Corporation for the British Group, and M. Simon, of the Banque de l'Indo-Chine, for the French Group.

For your information I beg to state that I have conferred informally with both the British and French Groups, and our views of the matter that you bring up are in accord. We can not but believe that there is some misunderstanding upon the part of your principals in the matter, for if they were to make such an attitude final, the effect upon the relation of Japan to the new Consortium would be obvious. Mongolia and Manchuria are important parts of China, and any attempt to exclude them from the scope of the Consortium must be inadmissible. The "special interests" to which you allude have, in our opinion, never had to do with economic matters.

The whole question that you bring up is one of such grave import that we feel that it is beyond the immediate competence of the financial groups to discuss, and I am therefore bringing the matter to the attention of the Department of State at Washington. I presume that the other groups will take similar action with respect to their own Foreign Offices.

We have noted your reference to the declaration made by Mr. Takeuchi on behalf of the Japanese Banking Group and recorded in the Minutes of the Conference on June 18, 1912, at meeting of the six banking groups held in Paris on that date. For your information I beg to recall to you that at the same time there was recorded in the Minutes of the Conference the following declaration: "The British, German, French and American Groups stated that they were unable to accept or consider either of these declarations upon the ground that they were not competent to deal with political questions." This declaration was accepted in conformity with the statement made by the Japanese Ambassador to Mr. Addis in London on June 11, 1912.

I remain,

Yours very truly,

(Signed) THOMAS W. LAMONT.

10. Identic Note of the Department of State to the French, Japanese and British Embassies at Washington, July 3, 1919, setting forth degree of diplomatic support to be accorded the Consortium

July 3, 1919.

SIR:

Referring to previous correspondence regarding the organization of a new International Consortium for financial business in China I have the honor to inform you that I have instructed the American Embassies at Paris and London to inform the French and British Governments that the Department will accept as an interpretation of the bankers' agreement of May 12th the following slightly modified form of the formula submitted by the French Government:

The Governments of each of the four participating groups undertake to give their complete support to their respective national groups members of the Consortium in all operations undertaken pursuant to the resolutions and agreements of the 11th and 12th of May, 1919, respectively, entered into by the Bankers at Paris. In the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four Governments will be assured to the Consortium for the purpose of obtaining such contract.

You will note that the principal change is in pledging each Government to the support of its respective national group rather than to the Consortium collectively. This proposed change makes the formula more in accord with the actual facts and with the established practice of this Government.

The American Ambassador at Tokyo is being instructed to communicate the above to the Japanese Foreign Office.

Accept, Sir, the renewed assurances of my high consideration,

(Signed) WILLIAM PHILLIPS,
Acting Secretary of State.

893.51/2292

11. Note of the American Embassy at London to the British Foreign Office, July 8, 1919, enclosing Modification of Bankers' Agreement

London, July 8, 1919.

No. 480.

MY LORD:

Referring to previous correspondence upon the subject of the formation of a new International Consortium to provide loans to China, and pursuant to the instructions of my Government, I have the honor to inform Your Lordship that should such modification appear necessary in order that certain objections which have hitherto arisen may be satisfactorily met, my Government would accept as an interpretation of the Bankers' Agreement of May 12th last the following slightly modified formula:

The Governments of each of the four participating groups undertake to give their complete support to their respective national groups, members of the Consortium, in all operations undertaken pursuant to the resolutions and agreements of the 11th and 12th of May, 1919, respectively, entered into by the Bankers at Paris. In the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four Governments will be assured to the Consortium for the purpose of obtaining such contract.

It will be noted that the principal change is that each Government is pledged to the support of its respective national group rather than to the Consortium collectively, thus rendering the formula more in accord with the actual facts and with the established practice of my Government.

I have the honor to be, with the highest consideration,

My Lord,

Your most obedient, humble servant,

(Signed) JOHN W. DAVIS.

The Right Honorable

EARL CURZON OF KEDLESTON, K. G.,

&c., &c., &c.,

The Foreign Office, S. W. 1.

12. Note of the British Foreign Office to the American Embassy at London, July 17, 1919, accepting American Plan, and enclosing Memorandum addressed to the French Embassy

No. 100098/10. F.

Foreign Office, S. W. 1.,
July 17, 1919.

YOUR EXCELLENCY:

I have the honor to acknowledge the receipt of Your Excellency's note No. 480 of the 8th instant, in which you communicated to me a formula regarding the measure of support to be accorded by the Governments concerned to their respective national groups forming part of the new International Consortium to provide loans to China.

In reply I beg to state that, subject to the concurrence of the other Governments concerned, His Majesty's Government are prepared to accept the American formula as correctly defining the British attitude on this question. They are informing the French Government of this decision and of the reasons which have led them to prefer the American formula to that originally proposed by Monsieur Pichon, as will be seen from the memorandum to the French Embassy, copy of which I beg to enclose for Your Excellency's information.

I presume that the United States Government have taken the necessary steps to obtain the consent of the Japanese Government to the adoption of the proposed formula.

I have the honor to be with the highest consideration,
Your Excellency's most obedient, humble servant,
(For EARL CURZON OF KEDLESTON)
(Signed) J. A. C. TILLEY.

His Excellency,

THE HONORABLE JOHN W. DAVIS.

MEMORANDUM

No. 100098/10. F.

By his memorandum of June 19th the French Chargé d'Affaires was kind enough to communicate to Earl Curzon of Kedleston a copy of a note addressed by M. Pichon to the American Ambassador on the subject of the resolution and draft agreement adopted at the meetings held in Paris on the 11th and 12th of

May by representatives of the French, British, American and Japanese groups forming the new International Consortium for financing loans to China. Monsieur de Fleuriau at the same time asked to be informed whether the views of the French Government as expressed in the note met with the concurrence of His Majesty's Government.

Lord Curzon has delayed replying to Monsieur de Fleuriau's memorandum as he knew that the American Government were making counter-proposals to the French Government and he considered that it would avoid confusion if he were first put in possession of those counter-proposals before proceeding to discuss the merits of the original French proposals and of the formula suggested by Monsieur Pichon to define the measure of diplomatic support to be given by the Governments to the Groups.

The French Ambassador is doubtless aware that, for reasons analogous to those set out by Monsieur Pichon in his note to the American Ambassador, as having influenced the French Government in their decision, His Majesty's Government have found it impossible to give a guidance of exclusive support to the British Group, and they were therefore prepared, in principle and subject to the concurrence of the other Governments interested, to approve the text of the formula suggested by Monsieur Pichon.

They have however now received from the United States Ambassador the text of a slightly modified formula which the United States Government are prepared to accept as an interpretation of the measure of diplomatic support contemplated in the Inter-Group Agreement of May 12th.

This formula runs as follows:

The Governments of each of the four participating groups undertake to give their complete support to their respective national groups, members of the Consortium, in all operations undertaken pursuant to the resolutions and agreements of the 11th and 12th of May, 1919, respectively, entered into by the Bankers at Paris. In the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four Governments will be assured to the Consortium for the purpose of obtaining such contract.

In Lord Curzon's opinion the American formula is in full accord with the intentions of the French Government as expressed in their formula, the principal change being that each

Government is pledged to the support of its respective national groups rather than of the Consortium collectively, which is more in accord with established facts and with the practice hitherto pursued by the Governments.

For these reasons Lord Curzon is inclined to prefer the American formula, and he has the honor to inform Monsieur Cambon that, subject to the concurrence of the other Governments concerned, His Majesty's Government would favor its adoption as defining the measure of support which they are prepared to give to the British group in their operations in connection with the Consortium.

FOREIGN OFFICE, S. W. I.,
July 17, 1919.

13. Memorandum of the Department of State to the Japanese Embassy at Washington, July 30, 1919, protesting against exclusion of Manchuria and Mongolia from Consortium

The Government of the United States is informed that, at the bankers' conference held in Paris during May and June last to discuss matters relating to the new Consortium for China, the Japanese financial delegates, acting under instructions from their principals, asserted that "all the rights and options held by Japan in the regions of Manchuria and Mongolia where Japan has special interests should be excluded from the arrangements for pooling provided for in the proposed agreement," because of "the very special relations which Japan enjoys geographically and historically with the regions referred to and which have been recognized by Great Britain, the United States, France and Russia on many occasions."

The Government of the United States is further informed that the position taken by the representative of the American Group, with the approval of the British and French financial representatives, was that, so far as the banking groups were concerned, any attempt to exclude Mongolia and Manchuria from the scope of the Consortium would be inadmissible; but that the whole question raised was one of such grave importance that it was felt to be beyond the immediate competence of the financial groups to

discuss, and that he would, therefore, bring the matter to the attention of his Government.

The Imperial Japanese Government has not indicated that it shares the opinion expressed by the Japanese bankers; but inasmuch as the question raised by the latter has been referred to this Government by the American representative, it is felt to be appropriate to bring the latter to the notice of the Imperial Government.

It may be that the Japanese banking group is under a misapprehension as to the objects and purposes of the Consortium, which are to make loans to the Central Government of China, or to the provincial governments, for administrative or industrial purposes and to include all such loans as have the guarantee of the Central Government or any of the provincial governments and which involve a public issue. They do not, however, contemplate the elimination of private enterprise or the activities of financial or industrial corporations, nor would it be the desire of this Government that they do so.

The Imperial Japanese Government will readily understand that the Government of the United States could not consistently consent that the American bankers agree to the reservation proposed, for the reason that it is believed to be an essential prerequisite to the proper functioning of the Consortium that all Chinese business of the classes proposed as appropriate for the activity of the Consortium be available for it. Reservations of regions can only impair its usefulness as an instrument for good, and limitations on its activity can only detract from its utility as a means for promoting international cooperation among those most interested in China. Moreover, as all other parties to the arrangement have agreed to pool their rights and options without other reservation than that contained in the terms of the agreement itself, it is only equitable that the same rule should apply to all alike.

~ If the Government of Japan is unable to convince the Japanese bankers of the justness of adhering, without reservation, to the agreement as accepted by the bankers representing the groups of the United States, Great Britain and France, the Government of the United States will receive the information with keen disap-

pointment and sincere regret; for it is felt that the relations established during the Great War between these and other nations have laid a basis upon which the work of peace might be erected by cordial cooperation and to their mutual advantage. The Government of the United States believes that the Consortium is one of those mediums for constructive work through which the helpful spirit of the relations which were so cemented during the war may be translated into cooperative action. That this view is not held alone by the Government of the United States is evidenced by the desire on the part of the British and the French Governments to cooperate in the Consortium and by the requests for representation therein from the Government of Belgium, and from the bank of Russia, both of which are now under consideration. It is, therefore, the confident hope of this Government that the Imperial Japanese Government will also share this view, and will so inform the Japanese banking group.

(Signed) ROBERT LANSING.

DEPARTMENT OF STATE,
WASHINGTON, *July 30, 1919.*

14. Memorandum of the British Foreign Office to the Japanese Ambassador at London, August 11, 1919, protesting against exclusion of Manchuria and Mongolia from Consortium

On the 22d of last month Earl Curzon of Kedleston had the honour to address to the Japanese Ambassador a Note on the subject of the British participation in the International Consortium for providing loans to China. This Note will have made it clear to Viscount Chinda that with the exception of the condition concerning exclusive official support to the British group—a point which has been satisfactorily settled by the adoption of the American formula defining the measures of support to be accorded by the Governments concerned to their respective national groups—His Majesty's Government have accepted in their entirety the original proposals of the American Government for the formation of the International Consortium as set out in a note addressed by Lord Curzon to the Japanese Chargé d'Affaires on March 22d last. This scheme, as Viscount Chinda is doubtless aware, comprises the pooling by the groups of all their existing and future

options in China, except such concessions as may already be in operation.

His Excellency has probably also had occasion to study the minutes of the inter-group meetings held in Paris on the 11th and 12th of May last, at which resolutions were unanimously adopted, subject of course to the approval of the Governments concerned, providing for the pooling by the groups of all their existing loans, agreements and options involving a public issue and even pledging the groups to use their best endeavors to induce other parties who may possess or control any such agreements or options to surrender the same to the Consortium.

At the present moment the British, American, and French Governments have all informed their respective groups of their approval of these Minutes, subject always to the American definition of the measure of official support to be accorded to them, but so far as Lord Curzon is aware no such approval has as yet been intimated by the Japanese Government, with the result that the urgent work of organising the Consortium has been brought to a standstill.

His Majesty's Government have heard, with the utmost regret that the Japanese financial delegates in Paris, acting under instructions from their principals, have informed their colleagues that all the rights and options held by Japan in the regions of Manchuria and Mongolia, where Japan has special interests, should be excluded from the arrangements for pooling provided for in the proposed agreement because of the very special relations which Japan enjoys geographically and historically with the regions referred to and which have been recognized by Great Britain, the United States, France and Russia on many occasions.

His Majesty's Government are further informed that the position taken by the British, American and French groups towards this claim of the Japanese group was that any attempt to exclude Manchuria and Mongolia from the scope of the Consortium would be inadmissible, but that the whole question raised was one of such grave importance that it was felt to be beyond the immediate competence of the Groups to discuss and must therefore be referred to the decision of the Governments.

In these circumstances His Majesty's Government feel justified in bringing the matter to the notice of the Japanese Government,—as they hear has already been done by the American Government,—and requesting them to direct the Japanese groups to modify their attitude on this all-important point.

One of the fundamental objects of the American proposals as accepted by the British, Japanese and French Governments, is to eliminate special claims in particular spheres of interest and to throw open the whole of China without reserve to the combined activities of an International Consortium. This object can not be achieved unless all the parties to the scheme agree to sacrifice all claim to enjoy any industrial preference within the boundaries of any political sphere of influence. Manchuria and Mongolia are important provinces of China and any attempt to exclude them from the scope of the Consortium would constitute a direct negation of the principle on which the Consortium is based, would provoke the revival of similar claims on the part of other nations and thus perpetuate the very difficulties which the Consortium is designed to obviate. Moreover as all other parties to the arrangement, except the Japanese group, have agreed to pool their rights and options without other reservation than that contained in the terms of the agreement itself, it is only equitable that the same rule should apply to all alike.

His Majesty's Government have every reason to believe that the Japanese Government will share these views and will cause the Japanese group to withdraw their claim to the exclusion of Manchuria and Mongolia from the scope of the Consortium.

FOREIGN OFFICE, S. W. I.,
August 11, 1919.

15. Memorandum of the Japanese Embassy at Washington, August 27, 1919, accepting resolutions adopted at Paris meeting of Bankers, but excluding Manchuria and Mongolia from Consortium

The Japanese Government accept and confirm the resolution adopted at the meeting of the representatives of the bankers groups of the United States, Great Britain, France and Japan at Paris on May 11 and 12, 1919, for the purpose of organizing an international consortium for financial business in China: Provided,

however, that the acceptance and confirmation of the said resolution shall not be held or construed to operate to the prejudice of the special rights and interest possessed by Japan in South Manchuria and Eastern Inner Mongolia.

(Signed) K. DEBUCHI.

JAPANESE EMBASSY,
WASHINGTON, *August 27, 1919.*

16. Memorandum of the Department of State, October 28, 1919, replying to the Memorandum of the Japanese Embassy at Washington, August 27, 1919, regarding exclusion of Manchuria and Mongolia from Consortium

The Government of the United States has received and carefully considered the memorandum dated August 27, 1919, in which the Imperial Japanese Embassy advised it that the Japanese Government accepted and confirmed the resolution adopted at the meeting of the representatives of the bankers groups of the United States, Great Britain, France and Japan at Paris on May 11 and 12, 1919, for the purpose of organizing an international Consortium for financial business in China, subject, however, to the following proviso:

that the acceptance and confirmation of the said resolution shall not be held or construed to operate to the prejudice of the special rights and interests possessed by Japan in South Manchuria and Eastern Inner Mongolia.

This Government, after an earnest study of the proposal thus made, reluctantly finds itself unable to assent to the proviso in reference to South Manchuria and Eastern Inner Mongolia: it can only regard the reservation in the form proposed as an intermixture of exclusive political pretensions in a project which all the other interested Governments and groups have treated in a liberal and self-denying spirit and with the purpose of eliminating so far as possible such disturbing and complicating political motives; and it considers that from the viewpoint, either of the legitimate national feeling of China or of the interests of the Powers in China it would be a calamity if the adoption of the Consortium were to carry with it the recognition of a doctrine of spheres of interest more advanced and far-reaching than was

ever applied to Chinese territory even in the period when the break-up of the Empire appeared imminent.

It can only be assumed that in taking its present position the Japanese Government has misapprehended the purposes of the Consortium and assumed that it is the intention of the other Governments to encroach upon the existing vested Japanese interests in the region indicated. That such is not the intention may be seen from the wording of the inter-group agreement of May 11th which in Article I specifies that only those industrial undertakings are to be pooled upon which substantial progress has not been made. This wording plainly excludes those enterprises which are already developed and thus constitute vested proprietary interests (such as the South Manchuria and Ssuningkai-Chengchiatun Railways, the Fushun collieries, et cetera) and may fairly be interpreted to exclude likewise the existing options for the extension of railways already in operation (for instance the proposed continuation to Taonan of the Ssuningkai-Chengchiatun Railway and to Hueining (Hoiryong) of the Kirin-Changchun Railway). If Japan's reservation is urged with a view solely to the protection of existing rights and interests, it would seem that all legitimate interests would be conserved if only it were made indisputably clear that there is no intention on the part of the Consortium to encroach on established industrial enterprises or to expect the pooling of existing Japanese options for the continuation thereof: and this Government feels that the Japanese Government should be amply content with the understanding that certain specific enterprises are exempt. This Government can not accept a geographical reservation which could not but lend itself to implications which are foreign to the purposes of the Consortium. But it is still hopeful that the Japanese Government may find it possible to authorize its banking group to enter the proposed Consortium with full assurance that no legitimate Japanese rights or interests would thereby be jeopardized.

(Signed) ROBERT LANSING.

DEPARTMENT OF STATE,
WASHINGTON, *October 28, 1919.*

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17. Memorandum of the British Foreign Office to the Japanese Embassy at London, November 19, 1919,¹ regarding Japanese exclusion of Manchuria and Mongolia from Consortium

On the 1st September his Excellency the Japanese Ambassador communicated to Earl Curzon of Kedleston the following memorandum:

The Japanese Government accept and confirm the resolutions adopted at the meeting of the representatives of the bankers' groups of the United States, Great Britain, France and Japan at Paris on the 11th and 12th May 1919, for the purpose of organizing an international Consortium for financial business in China, provided, however, that the acceptance and confirmation of the said resolutions shall not be held or construed to operate to the prejudice of the special rights and interests possessed by Japan in South Manchuria and Eastern Inner Mongolia.

At a subsequent interview with Lord Curzon Viscount Chinda, in accordance with instructions received from his Government, defined what was meant by South Manchuria and Eastern Inner Mongolia.

His Majesty's Government have now, after the most careful consideration of the Japanese contention, been forced to the conclusion that they could not justifiably accept the claim for the exclusion of Southern Manchuria and Eastern Inner Mongolia from the sphere of activity of the Consortium if it were intended as a territorial claim.

As was pointed out to the Japanese Ambassador in the memorandum communicated to his Excellency on the 11th August, the admission of such a claim to a monopoly of commercial interests in a large geographical area of China would be a direct infringement of the fundamental idea underlying the creation of the Consortium which was to abolish spheres of interest and throw open the whole of China to the activities of an international financial combination.

Lord Curzon, however, can not help thinking that the Japanese Government, must be labouring under a misapprehension as to the scope and purpose of the Consortium. It is not and never has been intended that under the guise of the Consortium vested interests should be encroached upon. Article 1 of the intergroup agreement of the 11th May last specifically lays down that

¹Handed to the Japanese Ambassador by Earl Curzon, November 20, 1919.

agreements and options relating to industrial undertakings (including railways), upon which substantial progress has been made, need not be pooled. Indeed, the sphere of the new Consortium is definitely limited to the financing of future undertakings in China, and was never meant to extend to established industrial enterprises.

So far as Southern Manchuria is concerned, Lord Curzon recognizes that there are in that province important railways and other industrial enterprises which have been developed or are in course of development by Japanese enterprise and which are clearly not within the sphere of the Consortium. Such is not, however, the case in Eastern Inner Mongolia, where, although options for railways have been granted to Japan, no work has yet been begun. Indeed, such a claim as is put forward by the Japanese Government in regard to Eastern Inner Mongolia, amounting to the reservation of an exclusive interest in a large area whose southern boundaries practically envelop Peking and encroach upon the province of Chihli, can not be reconciled with the maintenance of the independence and territorial integrity of China which Japan has so often pledged herself to observe.

It is confidently hoped, therefore, that when the question is viewed in this light, the Japanese Government will see no objection to modify their present attitude as regards both South Manchuria and Inner Mongolia and will authorise the Japanese banking group to enter into the new Consortium on the same basis as the other groups, that is, without any special reservations.

The Japanese Government will also, no doubt, recognize the urgent need of promptitude in dealing with the situation, in view of the disastrous situation on the verge of which China appears now to find herself.

FOREIGN OFFICE, *November 19, 1919.*

18. Memorandum of the Japanese Embassy at Washington to the Department of State, March 2, 1920, setting forth the reasons for exclusion of Manchuria and Mongolia from Consortium

The Japanese Government have given their serious consideration to the Memorandum of the United States Government of

the 28th of October last relating to the formation of a new Consortium.

The United States Government appears to be under the impression that the proposal of the Japanese Government in regard to South Manchuria and Eastern Inner Mongolia amounts either to exclusive political pretentions or to the establishment of a so-called sphere of interest.

The Japanese Government desire to set forth once again their views frankly on the main purpose of their proposal and to invite further consideration on the part of the United States Government on this subject.

From the nature of the case, the regions of South Manchuria and Eastern Inner Mongolia which are contiguous to Korea stand in very close and special relation to Japan's national defense and her economic existence. Enterprises launched forth in these regions, therefore, often involve questions vital to the safety of the country. This is why Japan has special interest in these regions and has established there special rights of various kinds.

The Japanese Government are under no misapprehension or misgiving as to the purpose of the organization of the Consortium and are glad to cooperate under such an arrangement with the Powers concerned for the promotion of the general welfare in China. But, as is suggested in the proposed Consortium, merely out of business considerations, to throw open to the common activities of an international financial combination, even those enterprises in the regions of South Manchuria and Eastern Inner Mongolia which vitally affect the economic existence and national defense of Japan, would be no safe way of providing for the national peace and security, and for this reason, it would hardly meet with the approval of public opinion in Japan. These considerations were fully set forth by Mr. Debuchi, the then Chargé d'Affaires of Japan, in his interview with the Third Assistant Secretary on the 27th of August last year.

Furthermore, the recent development of the Russian situation, exercising as it does an unwholesome influence upon the Far East, is a matter of grave concern to Japan. In fact, the conditions in Siberia, which have been developing with alarming precipitancy of late, are by no means far from giving rise to the most serious situation, which may at any time take a turn threatening

the safety of Japan and the peace of the Far East, and ultimately place entire Eastern Asia at the mercy of the sinister activities of extremist forces. Having regard to these signals of the imminent character of the situation, the Japanese Government all the more keenly feel the need of adopting measures calculated to avert any such danger in the interest of the Far East as well as of Japan. Now South Manchuria and Mongolia are the gate by which these direful influences may effect their penetration into Japan and the Far East to the instant menace of their security.

The Japanese Government are convinced that having regard to the vital interests which Japan, as distinct from the other Powers, has in the regions of South Manchuria and Mongolia, the United States Government will appreciate the circumstances which compelled the Japanese Government to make a special and legitimate reservation indispensable to the existence of the State and its people.

In short, the present proposal of the Japanese Government in regard to Manchuria and Mongolia is based, as already explained, on the paramount importance of the economic existence and national security of the country, coupled with a due regard for the general peace of the Far East—considerations which have been strengthened by the recent development of the situation. Consequently the Japanese Government are prepared to cooperate with the financiers of the Powers concerned in Manchuria and Mongolia so long as the main purpose of their proposal as above enunciated remains respected. It would be needless to say that that proposal was prompted by no desire of making any territorial demarcation involving the idea of economic monopoly or of asserting any exclusive political pretensions or of affirming a doctrine of any far-reaching sphere of interest in disregard of the legitimate national aspirations of China, as well as of the interests possessed there by the Powers concerned. It is confidently hoped that the United States Government would submit these points to their serious consideration.

The Japanese Government are gratified that the United States Government acknowledges in its Memorandum now under review the exclusion from the scope of the common activities of the new Consortium, not only of those Japanese undertakings in Manchu-

ria and Eastern Inner Mongolia which are already developed and constitute vested proprietary interests, but also of the existing options in connection with railways already in operation (for instance the proposed continuation to Taonan of the Ssupingkai Chengchiatun Railway and to Hueining of the Kirin-Changchun Railway) and makes it abundantly clear that Japan's legitimate rights and interests are in no case to be jeopardized. Having regard to the considerations of assuring the national security referred to above, it is expected that the principal instances of Japan's legitimate undertakings, as enumerated in the attached statement, will be excluded from the scope of the common activities of the new Consortium. The British Foreign Minister invited Viscount Chinda on the 19th of November last year, if there is any fear that any project launched under the aegis of the Consortium might threaten the strategic security of Japan, to guard against this danger by proposing a formula to meet the case. It is believed that the views of the British Government in this respect are shared by the United States Government.

Accordingly, the Japanese Government, while authorizing the Japanese bankers' group to enter the proposed Consortium on the same footing as the bankers' groups of the other Powers concerned, venture to propose to achieve the settlement of the matter at issue by exchanging between the Members concerned a note embodying the sense of the formula hereto attached.

FORMULA

The Japanese Government accept and confirm the resolutions passed at the conference of the representatives of the banking groups of the United States, Great Britain, France and Japan which met in Paris on May 11th and 12th, 1919, for the purpose of organizing a new Consortium. In matters, however, relating to loans affecting South Manchuria and Eastern Inner Mongolia which in their opinion are calculated to create a serious impediment to the security of the economic life and national defense of Japan, the Japanese Government reserve the right to take the necessary steps to guarantee such security.

JAPANESE EMBASSY,
March 2, 1920.

1. The South Manchuria Railway and its branches, together with the mines which are subsidiary to the Railway, are unaffected by the scope of the common activities of the new Consortium.

2. The construction of the Kirin-Changchun Railway, Shinminfu-Mukden Railway and Ssupinghai Chang-chiatun Railway has been completed, and their operation has already been commenced. They fall therefore within the category of those enterprises which according to Article 2 of the proposed inter-group Agreement, have already made substantial progress, and are outside the scope of the common activities of the new Consortium.

3. The Kirin-Hueining Railway, the Changchiatun-Taonanfu Railway, the Changchun-Taonanfu Railway, the Kaiyuan-Kirin Railway, the Taonanfu-Jehol Railway and the railway connecting a point in the Taonanfu-Jehol Railway with a seaport are branch or feeding lines of the South Manchuria Railway. Moreover, having regard to the fact that, as stated in the Memorandum dated March 2, these lines together with the South Manchuria Railway do not only bear a most important relation to the national defense of Japan, but also constitute a powerful factor in the maintenance of peace and order in the Far East; and also in view of the fact that, as an extension of the railways already in operation as set forth in the memorandum of the United States Government, these lines form the subject of legitimate rights of Japan, it is expected that they will be placed outside the scope of the common activities of the new Consortium. It is not unlikely, however, that in case of any loan being floated in future in connection with these railways, the European and American market will be invited to subscribe to it.

JAPANESE EMBASSY,
March 2, 1920.

19. Memorandum of the Department of State, March 16, 1920, replying to the Memorandum of the Japanese Embassy at Washington, March 2, 1920, with respect to Japanese interests in Manchuria and Mongolia

The Government of the United States has received and carefully considered the memorandum under date of March 2, 1920,

in which the Japanese Ambassador set forth the views of his Government as to the formation of the proposed international Consortium for loans to China; and it is happy to record the hearty gratification with which it has noted the disavowal by Japan of any claim to exclusive economic or political rights with respect to South Manchuria and Eastern Inner Mongolia.

The American Government can not but acknowledge, however, its grave disappointment that the formula proffered by the Japanese Government is in terms so exceedingly ambiguous and in character so irrevocable that it might be held to indicate a continued desire on the part of the Japanese Government to exclude the American, British and French banking groups from participation in the development, for the benefit of China, of important parts of that Republic,—a construction which could not be reconciled with the principle of the independence and territorial integrity of China.

The Government of the United States is not unsympathetic with the professed objects of the principle embodied in the Japanese formula: it considers, on the other hand, first, that the right of national self-preservation is one of universal acceptance in the relations between States, and therefore would not require specific formulation as to its application in any particular instance; and, second, that the recognition of that principle is implicit in the terms of the Notes exchanged between Secretary Lansing and Viscount Ishii on November 2, 1917. This Government therefore considers that by reason of the particular relationships of understanding thus existing between the United States and Japan, and those which, it is understood, similarly exist between Japan and the other Powers proposed to be associated with it in the Consortium, there would appear to be no occasion to apprehend on the part of the Consortium any activities directed against the economic life or national defense of Japan. It is therefore felt that Japan could with entire assurance rely upon the good faith of the United States and of the other two Powers associated in the Consortium to refuse their countenance to any operation inimical to the vital interests of Japan: and that Japan's insistence that the other three Powers join with it in the proposed formula as a condition precedent would only create misapprehension. It is felt, moreover, that such a formula would

not only be unnecessary, but would lend itself to misconstruction for the reason that it apparently differentiates between the status of South Manchuria and Eastern Inner Mongolia and that of other Chinese territory. The mere fact of differentiation would, it is apprehended, give rise to questions which would tend still further to unsettle the already complex situation in China. This Government is therefore hopeful that the Japanese Government may in view of its several existing relationships of understanding with the United States and the other two Powers be persuaded to rely upon their good faith in this matter and forego its proposal to require explicit guarantees, the mere statement of which opens the way for possible misconstruction and misapprehension in the future.

The Government of the United States has furthermore been happy to note the readiness of the Japanese Government to enumerate the specific vested interests of its nationals, in Manchuria and Mongolia, which it would propose to exclude from the scope of operations of the proposed Consortium; although it finds it difficult to believe that in order to meet the necessities of Japanese economic or political security it is essential for Japan alone to construct and control a railway line of such a character as the one projected from Taonanfu to Jehol and thence to the seacoast.

It is hoped that the discussions now in progress in Tokyo between Mr. Lamont, on behalf of the American Group, and the representatives of the Japanese banking interests may result in such a complete understanding on the question of the specific enterprises in Manchuria and Mongolia, which it may be found mutually satisfactory to exclude from the operation of the Consortium, as would enable the Japanese Government to accord to that understanding its unqualified approval.

In conclusion, the Government of the United States takes pleasure in the fact that the frank interchanges of views which have thus far taken place appear to have resulted in a basis of mutual understanding which justifies the belief that a speedy completion of the organization of the Consortium is now possible.

DEPARTMENT OF STATE,

WASHINGTON, *March 16, 1920.*

20. Memorandum of the Japanese Embassy at London to the British Foreign Office, March 16, 1920,¹ outlining the reasons for Japan's exclusion of Manchuria and Mongolia from the Consortium

The Japanese Government have given their serious consideration to the British Government's note of the 19th November last relative to the formation of a new Consortium. The British Government appear to be under the impression that the proposal of the Japanese Government in regard to South Manchuria and Eastern Inner Mongolia amounts either to the assertion of a monopoly of economic interests in that region or to the establishment of a so-called sphere of interest there, and further, that such a proposal can not be reconciled with the principle of independence and territorial integrity of China.

The Japanese Government desires to set forth once again their views frankly on the purpose of their proposal and invite further consideration on the part of the British Government on this subject.

From the nature of the case the regions of South Manchuria and Eastern Inner Mongolia, which are contiguous to our territory of Korea, stand in very close and special relations to Japan's national defence and her economic existence. Enterprises launched forth in these regions, therefore, often involve interests vital to the safety of our country. This is why Japan has special interests in these regions and has established there special rights of various kinds. The Japanese Government are under no misapprehension or misgiving as to the purpose of the organization of the Consortium, and are glad to cooperate under such an arrangement with the Powers concerned for the promotion of the general welfare of China. But, as is suggested in the proposed Consortium merely out of business considerations, to throw open to the common activities of an international financial combination even those enterprises in the regions of South Manchuria and Eastern Inner Mongolia which vitally affect the economic existence and national defence of Japan would be no safe way of providing for the national peace and security, and for this reason it would hardly meet with the approval of the public opinion in Japan. These considerations were fully set forth by Viscount

¹Left with Earl Curzon by the Japanese Ambassador.

Chinda in his interview with Lord Curzon on the 1st September last year.

Furthermore, the development of the Russian situation, exercising as it does an unwholesome influence upon the Far East, is a matter of grave concern to Japan; in fact, the conditions in Siberia, which have been developing with such alarming precipitancy of late, are by no means far from giving rise to a most serious situation, which may at any time take a turn threatening the safety of Japan and the peace of the Far East and ultimately place the entire Eastern Asia at the mercy of the dangerous activities of extremist forces. Having regard to these signals of the need—imminent character of the situation—the Japanese Government all the more keenly feel the need of adopting measures calculated to avert any such danger in the interest of the Far East as well as of Japan. Now, South Manchuria and Mongolia are the gate by which this direful influence may effect its penetration into Japan and the Far East to the instant menace of their security. The Japanese Government are convinced that, having regard to the vital interests which Japan, as distinct from the other Powers, has in the regions of South Manchuria and Mongolia, the British Government will appreciate the circumstances which compelled the Japanese Government to make a special and legitimate reservation indispensable to the existence of the State and its people.

In short, the present proposal of the Japanese Government in regard to Manchuria and Mongolia is based, as already explained, on the paramount importance of the economic existence and national security of the country, coupled with a due regard for the general peace of the Far East, a consideration which has been strengthened by the recent development of the situation. Consequently Japan is prepared to cooperate in Manchuria and Mongolia with the financiers of the Powers concerned so long as the main purpose of their proposal as above enunciated remains respected; nor need they say that their proposal was prompted by no desire of making any territorial demarcation involving the idea of economic monopoly or of affirming or pretending sphere of interests, or of acting in defence of the principle of the inde-

pendence and territorial integrity of China. It is confidently hoped that the British Government will take these points into their most serious consideration.

Lord Curzon invited Viscount Chinda—if there is any fear that any project launched under the aegis of the Consortium might threaten the strategic security of Japan—to guard against this danger by proposing a formula to meet the case. It is a cause of gratification to know that the British Government thus share the apprehensions entertained by the Japanese Government. In view of the foregoing considerations, the Japanese Government, while authorising the Japanese bankers' group to enter the proposed Consortium on the same footing as the bankers' groups of the other Powers concerned, venture to propose to achieve the settlement to the question at issue by exchanging between the Governments concerned a note embodying the sense of the formula hereto attached.

FORMULA

The Japanese Government accept and confirm the resolutions passed at the conference of the representatives of the banking groups of the United States, Great Britain, France and Japan which met at Paris on the 11th and 12th May, 1919, for the purpose of organizing a new Consortium. In matters, however, relating to loans affecting South Manchuria and Eastern Inner Mongolia, which in their opinion are calculated to create a serious impediment to the security of the economic life and national defence of Japan, the Japanese Government reserve the right to take the necessary steps to guarantee such security.

March 16, 1920

1. The South Manchurian Railway and its branches, together with the mines which are subsidiary to the railway, are unaffected by the loans to be made. Hence they do not come within the scope of the common activities of the new Consortium.

2. The construction of the Kirin-Changchun Railway, Sinminfu-Mukden Railway and Ssuping kai-Chengchiatun Railway has been completed and their operation has already been commenced.

They fall, therefore, within the category of these enterprises which according to article 2 of the proposed inter-group agreement, have already made substantial progress, and are outside the scope of the common activities of the new Consortium.

3. The Kirin-Huiening Railway, the Chengchiatun-Taonanfu Railway, Changchun-Taonanfu Railway, the Kaiyuan-Kirin Railway, and the Taonanfu-Jehol Railway and the railway connecting a point on the Taonanfu-Jehol Railway with a seaport are branches of feeding lines of the South Manchurian Railway. Moreover, having regard to the fact that, as set forth in the memorandum dated the 16th March 1920, these lines, together with the South Manchurian Railway, not only bear the most important relation to the national defence of Japan, but also constitute a powerful factor in the maintenance of peace and order in the Far East, it is expected that they will be placed outside the scope of the common activities of the new Consortium. Both the British and the American Governments have already agreed to the exclusion of most of these lines. It is not unlikely, however, that in case of any loan being floated in future in connection with these railways the European and American markets will be invited to subscribe to it.

21. Memorandum of the British Foreign Office, March 19, 1920,¹ in reply to the Memorandum of the Japanese Embassy at London, March 16, 1920

His Majesty's Principal Secretary of State for Foreign Affairs, having carefully studied the memorandum and formula communicated by his Excellency the Japanese Ambassador on the 16th March relative to the position of South Manchuria and East Inner Mongolia under the proposed Consortium, has the honour to make the following observations:

In the memorandum handed to Viscount Chinda on the 20th November last, Lord Curzon clearly enunciated the objections felt by His Majesty's Government to the Japanese claim to exclude from the sphere of the Consortium a large geographical

¹Earl Curzon to Viscount Chinda.

area of China, and he is now regretfully forced to the conclusion that little or no modification of this original attitude is to be found in the wording of the formula suggested. The phrase which runs—

In matters relating to loans affecting South Manchuria and East Inner Mongolia which in their opinion are calculated to create a serious impediment to the security of the economic life and national defence of Japan, the Japanese Government reserve the right to take the necessary steps to guarantee such security,

is so ambiguous and general in character that it might be held to indicate on the part of the Japanese Government a continued desire to exclude the cooperation of the other three banking groups from participating in the development, for China's benefit, of important parts of the Chinese Republic and therefore creates the impression that the Japanese reservation can not be reconciled with the principle of the independence and the realization of the integrity of China.

While His Majesty's Government clearly recognize the legitimate desire of the Japanese nation to be assured of the supplies of food and raw material necessary to her economic life and her justifiable wish strategically to protect and maintain the Korean frontier, they find it impossible to believe that, in order to meet such needs, it is essential for Japan alone to construct and control, for instance, the three railway lines mentioned in the third reservation lying to the west of the South Manchurian Railway.

In order, however, to meet as far as possible the wishes of the Japanese Government and at the same time to avoid the mention of specific areas, which rightly or wrongly might give rise to the impression that a special sphere of interest was being officially recognized, His Majesty's Government would be prepared to subscribe to a written assurance to the effect that the Japanese Government need have no reason to apprehend that the Consortium would direct any activities affecting the security of the economic life and national defense of Japan and that the Japanese Government can firmly rely on the good faith of the Powers concerned to refuse to countenance any operations inimical to such interests.

FOREIGN OFFICE, *March 19, 1920.*

22. Memorandum of the Japanese Embassy at Washington, April 3, 1920, in reply to the Memorandum of the Department of State, March 16, 1920

The Japanese Government have received the Memorandum of the United States Government dated March 16, 1920, giving frank expression to its views again upon the proposal of Japan relative to the organization of a new Consortium for loans to China, and have taken it into their careful consideration.

The Japanese Government are happy to express the hearty gratification with which they have noted that the United States Government is fully appreciative of and even sympathetic with the principle embodied in the formula proposed by the Japanese Government. The United States Government, however, is inclined to think that the terms and character of the formula may be taken to indicate a continued desire on the part of Japan to exclude the other Powers from participation in the development of important parts of China, and that it is likely to create unnecessary misapprehension. The Memorandum adds that the United States Government is therefore hopeful that the Japanese Government will withdraw their proposal for the explicit guarantee embodied in the formula in question. The Japanese Government, while acknowledging that this suggestion of the United States is offered in the most friendly spirit, would like to state that they made the proposal now under review only because they felt it useful and important to do so in order to make clear the particular position which Japan occupies through the facts of territorial propinquity and of her special vested rights.

They never thought of any possibility of the formula giving rise of any such misapprehension or misconstruction as is pointed out by the United States Government. They are glad, however, to note that it is not so much to the principle of their proposal as to its form that the United States Government takes exception. Assurance is given in the Memorandum of the United States Government that the right of national self-preservation, which forms the basis of the guarantee required by Japan in order to assure the security of her national defense and the economic existence of her people, is not only one of universal acceptance but one of which the recognition is implied in the terms of the

notes exchanged between Secretary Lansing and Viscount Ishii, so that the new Consortium would in no case embark upon any activities directed against the national defense and the economic existence of Japan and so that the Powers associated in the Consortium would refuse their countenance to any enterprise inimical to the vital interests of Japan. Accordingly, after deliberate consideration, the Japanese Government relying upon that assurance of the United States, have come to the decision to accept most willingly the suggestion of the United States Government and to forego their request for the acceptance of the proposal formula on the part of the other interested Powers, on condition that these Powers agree to the above understanding as formulated by the United States Government.

As to the railway and other enterprises which Japan naturally expects will be excluded from the scope of the common activities of the new Consortium, the United States Government expresses a doubt as to whether it is essential for Japan alone to construct and control such a railway as the Taonanfu-Jehol line. This railway together with the line connecting a point thereon with a seaport, was projected with the strategic object of making it a means of common defense on the part of China and Japan against foreign invasion coming from the direction of Ourga, quite apart from the further object of facilitating development of the districts through which these lines run. It is, therefore, a matter of great regret and surprise to the Japanese Government that there exist the misunderstanding that these railways will eventually prove a menace to Peking. It is confidently hoped that Japan's position in this connection may be fully appreciated by the United States Government. The Japanese Government, mindful as they are of the common interests of the Powers, have no objection to a scheme of making these two railways a joint enterprise of the new Consortium, but having regard to the particular relation in which Japan stands to these railways, it is hoped that the United States Government will lend their full support to the following two propositions.

(1) In the event of the new Consortium projecting in future a scheme of extending the Taonanfu-Jehol Railway to the north with a view to connection with the Eastern Chinese Railway, the

assent of the Japanese Government thereto must be obtained beforehand through the Japanese group, inasmuch as such an extension being tantamount to a renewal of the so-called Chinchou-Aigun railway scheme against which a protest was lodged by Japan when the question was motioned some years ago, is calculated to have a serious effect upon the South Manchuria Railway.

(2) In consideration of the particular desire of Japan that these two lines should be built as speedily as possible, the Japanese group, after due consultation with the other groups, may be permitted to undertake their construction single-handed in the event of the other three Powers associated in the new Consortium being reluctant to finance it. In that case, having regard to the fact that these railways must cross the Peking-Mukden railway at a certain point, the American group will give their support to the overture which the Japanese financiers will make to their British colleagues with a view to perfecting the junction of these lines.

As regards concrete questions as to which of the options that Japan possesses at present in Manchuria and Mongolia in respect to railways, is to be excluded, in accordance with the understanding reached between the Governments of the United States and Japan, from the scope of the common activities of the new Consortium, the Japanese Government entirely share the view of the United States Government that a settlement satisfactory to both parties will be arrived at through the discussion now in progress in Tokyo between Mr. Lamont and the representatives of the Japanese banking group. In this belief, the representatives of the Japanese banking group are authorized to proceed with the discussion with Mr. Lamont with the object of arriving at a settlement of questions of this nature.

JAPANESE EMBASSY,
WASHINGTON, *April 3, 1920.*

23. Memorandum of the Japanese Embassy at London to the British Foreign Office, April 14, 1920,¹ transmitting revised Proposals

The Japanese Government have received the Memorandum of the British Government dated the 19th March, 1920, giving

¹ Left with Sir Eyre Crowe by the Japanese Ambassador.

frank expression of their views again upon the proposal of Japan relative to the organization of a new Consortium for loans to China and have taken it into their careful consideration.

The Japanese Government are happy to express the hearty gratification with which they have noted that the British Government are fully appreciative of Japan's legitimate aspirations in the direction of safeguarding her national defence and the economic existence of her people, a principle embodied in the formula proposed by the Japanese Government, and that they have given assurances of performing all that is in their power to meet the wishes of the Japanese Government. The British Government, however, are inclined to think that the terms and character of the formula may be taken to suggest a continued desire on the part of Japan to exclude the other Powers from participation in the development of important parts of China, and it is likely to create the impression that Japan's reservations, as indicated by the terms of the formula, are incompatible with the principle of the independence and territorial integrity of China. Moreover as it is apprehended that the indication of territorial demarcation may give rise to the impression of official recognition being accorded to the principle of special interests, the British Government are hopeful that any expressions of this nature may be avoided. The Japanese Government, while acknowledging that this suggestion of the British Government is offered in the most friendly spirit, would like to state that they made the proposal now under review only because they felt it useful and important to do so in order to make clear the particular position which Japan occupies through facts of territorial propinquity and of her special vested interest. They never thought of any possibility of the formula giving rise to any such misapprehension or misconstruction as is pointed out by the British Government. They are glad, however, to note that it is not so much to the principle of their proposal as to its form that the British Government takes exception.

Accordingly, after deliberate consideration, the Japanese Government, relying upon the promise of the British Government to give them a written assurance to the effect that they fully recognize the fundamental principle of safeguarding the integrity of

the national defence and the economic existence of Japan as proposed by Japan, so that the Japanese Government have no occasion to apprehend that the new Consortium would embark upon any activities affecting the national defence and the economic existence of Japan and so that the Powers concerned would refuse their countenance to any enterprise inimical to such Japanese interests, have come to the decision to accept most willingly the suggestion of the British Government and to forego their demand for the acceptance of the proposed formula on the part of the other interested Powers on the condition that these Powers agree to the above understanding as formulated by the British Government.

As to the railway and other enterprises which Japan naturally expects will be excluded from the scope of the common activities of the new Consortium, the British Government express a doubt as to whether it is essential for Japan alone to construct and control the three railway lines running west of the South Manchurian Railway. The Taonanfu-Jehol Railway, and the lines connecting a point thereon with a seaport, were projected with the strategic object of making it a means of common defence on the part of China and Japan against foreign invasion coming from the direction of Ourga, quite apart from the further object of facilitating development of the districts through which these lines run. It is therefore a matter of great regret and surprise to the Japanese Government that there exists the misunderstanding that these railways will eventually prove a menace to Peking. It is confidently hoped that Japan's position in this connection may be fully appreciated by the British Government. The Japanese Government, mindful as they are of the common interests of the Powers, have no objection to a scheme of making these two railways a joint enterprise of the new Consortium, but, having regard to the particular relation in which Japan stands to these railways, it is hoped that the British Government will lend their full support to the following two propositions:

1. In the event of the new Consortium projecting in future a scheme of extending the Taonanfu-Jehol Railway to the north with a view to connecting them with the Eastern Chinese Rail-

way, the assent of the Japanese Government thereto must be obtained beforehand, through the Japanese Group, inasmuch as such an extension—being tantamount to a renewal of the so-called Chinchou-Aigun Railway scheme, against which a protest was lodged by Japan when the question was mooted some years ago—is calculated to have a serious effect on the South Manchurian Railway.

2. In consideration of the particular desire of Japan that these two lines should be built as speedily as possible, the Japanese Group, after due consultation with the other Groups, may be permitted to undertake their construction single handed in the event of the other three Powers associated in the new Consortium being reluctant to finance it. In that case, having regard to the fact that these railways must cross the Peking-Mukden Railway at a certain point, the British Government will use their best endeavours towards bringing a happy conclusion to the negotiations which the Japanese financiers may enter upon with their British colleagues with a view to perfecting the junction of these lines.

As regards concrete questions as to which of the options that Japan possesses at present in Manchuria and Mongolia in respect of railways is to be excluded, in accordance with the understanding reached between the Governments of Great Britain and Japan, from the scope of the common activities of the new Consortium, it is believed that a satisfactory settlement will be reached through the discussions now proceeding in Tokyo, with the cognizance of the American and Japanese Governments, between Mr. Lamont, who besides being representative of the American Group, is understood to have certain definite understandings on the subject with both the British and the French Groups, and the representative of the Japanese Banking Group. The Japanese Government will therefore authorize the Japanese Group to proceed with the discussion with Mr. Lamont for the purpose of arriving at a conclusive settlement of questions of this nature.

JAPANESE EMBASSY,
LONDON, *April 14, 1920.*

24. Memorandum of the British Foreign Office to the Japanese Embassy at London, April 28, 1920, requesting waiving of reservations by Japanese Government

His Majesty's Government have received the further memorandum of the Imperial Japanese Government of the 14th April, and after having given it their careful consideration, have the honour to reply as follows:

His Majesty's Government are much gratified to learn that the Japanese Government are prepared to accept the written assurance to which Lord Curzon declared his willingness to subscribe in his note to Viscount Chinda of the 19th March, and that provided the other Powers agree to give a similar assurance, the Imperial Government are willing to forgo the request which they had made in their note of the 16th March last the Powers interested should accept the formula, the wording of which had appeared somewhat ambiguous in character.

As regards the two propositions mentioned in the Japanese Government's memorandum under reply, His Majesty's Government much regret that the Imperial Government should have raised these questions at a moment when it was hoped that the four Powers interested were about to reach an agreement on the basis of a compromise which Mr. Lamont, the representative of the American Banking Group, appeared to have reached in Tokyo with the representatives of the Japanese Group. His Majesty's Government fear that if the discussion of these propositions is insisted upon it will merely delay matters, and in the interests of all parties concerned, they sincerely trust the Imperial Government will be willing to withdraw them and to be satisfied with the general assurance to which His Majesty's Government have already offered to subscribe, and which the Imperial Government have just expressed their willingness to accept.

In order to meet the wishes of the Imperial Government, His Majesty's Government are prepared to agree to the terms of the compromises proposed by Mr. Lamont in Tokyo and to waive the objections which they had at one time offered to the exclusion from the Consortium of the two projected railway lines from Taonanfu to Chang-chun and from Taonanfu to Cheng-chiatun.

As regards proposition (1), Japan practically asks for a right to veto construction by the Consortium, of a line from Taonanfu to join the Chinese Eastern Railway, on the grounds that such an extension would be tantamount to a renewal of the so-called Chin-chou-Aigun Railway scheme, against which Japan had lodged a protest some years ago.

His Majesty's Government have no wish to do anything which would conflict with the vital interests of their ally, and the assurance to which they have declared their willingness to subscribe would appear fully to safeguard Japan's interest. It appears to His Majesty's Government that with the establishment of the Consortium a new era is about to dawn in which conditions have changed, and it is now proposed that the Powers should work together in harmonious and friendly cooperation rather than in competition, and granting to any one party to the Consortium the Power to veto in advance the possible construction of a railway would appear to be contrary to the principles upon which the idea of a Consortium is based.

In the opinion of His Majesty's Government, the contingency anticipated in proposition (2) would appear to be already provided for in Article 4 of the Inter-Group Conference in Paris of the 12th of May, 1919, of which His Majesty's Government have expressed their approval.

His Majesty's Government sincerely trust that the Imperial Government will recognize the friendly spirit in which these observations are made, and that they will now agree to cooperate with the other three Powers along the lines of the proposed compromise. They note with gratification that the Japanese Government is prepared to authorize the Japanese Group to proceed with the discussion with Mr. Lamont for the purpose of reaching a settlement. They trust that the Imperial Government will now see their way to give this authorization without the suggested reservations, in order that the final arrangements between the groups may be completed whilst Mr. Lamont is still in Peking, and the necessary exchange of letters between the representatives of the Japanese and American Groups effected with the least possible delay.

FOREIGN OFFICE, *April 28, 1920.*

25. Memorandum of the Department of State, April 29, 1920, in reply to the Memorandum of the Japanese Embassy at Washington, April 3, 1920

The American Government has received the further memorandum of the Imperial Japanese Government of April 3d and after having given it careful consideration has the honor to reply as follows:

The American Government is much gratified to learn that the Japanese Government is prepared to accept most willingly the suggestion of the American Government to forego its request for the acceptance of the proposed formula which it had made in its note of March 2d.

As regards the two propositions mentioned in the Japanese Government's memorandum under acknowledgment the American Government much regrets that the Imperial Government should have raised these questions at a moment when it was hoped that the four Powers interested were about to reach an agreement on the basis of compromise which Mr. Lamont, the representative of the American banking group, appeared to have reached in Tokyo with the representatives of the Japanese Group. The American Government fears that if the discussion of these propositions is insisted upon it will merely delay matters and in the interests of all parties concerned it sincerely trusts that the Imperial Japanese Government will be willing to withdraw them and to be satisfied with the general assurance to which the American Government has already offered to subscribe and which the Imperial Japanese Government has just expressed its readiness to accept.

In order to meet the wishes of Japan the American Government is prepared to agree to the terms of the compromise proposed by Mr. Lamont in Tokyo.

As regards proposition one, Japan practically asks for a right to veto the construction by the Consortium of a line from Taonanfu to join the Chinese Eastern Railway on the grounds that such an extension would be tantamount to a renewal of the so-

called Chinchou-Aigun Railway scheme against which Japan had lodged a protest some years ago. The Government of the United States has no wish to do anything which would conflict with the vital interests of Japan and the assurance to which it has declared its willingness to subscribe would appear fully to safeguard Japan's interests. It appears to the American Government that, with respect to the establishment of the Consortium, a new era is about to dawn in which conditions have changed and it is now proposed that the Powers should work together in harmonious and friendly cooperation rather than in competition and the granting to any one party to the Consortium of the power to veto the possible construction of a railway would appear to be contrary to the principles upon which the idea of the Consortium is based.

In the opinion of the American Government the contingency anticipated in proposition two would appear to be already provided for in Article IV of the Intergroup Agreement at Paris on May 12th, paragraph 19, of which the American Government has expressed its approval. The American Government sincerely trusts that the Imperial Japanese Government will recognize the friendly spirit in which these observations are made and that it will now agree to cooperate with the other three Powers along the lines of the proposed compromise. It notes with gratification that the Japanese Government is prepared to authorize the Japanese Group to proceed with the discussion with Mr. Lamont for the purpose of reaching a settlement. It expresses the hope that the Japanese Government will now see its way to give this authorization without the suggested reservations in order that the final arrangements between the groups may be concluded while Mr. Lamont is still in Peking and the necessary exchange of letters between the representatives of the Japanese and American Groups effected with the least possible delay.

DEPARTMENT OF STATE,
WASHINGTON, *April 29, 1920.*

26. Memorandum of the Japanese Embassy at Washington to the Department of State, May 8, 1920, regarding the Japanese interpretation of interests in Manchuria and Mongolia

The Japanese Government received on May 3d the Memorandum of the American Government dated April 29th in reply to their Memorandum of April 3d last, and have carefully examined it.

The Japanese Government are happy to note that the American Government is much gratified with the readiness of the Japanese Government to forego, in reliance upon the assurance given in the memorandum of the American Government dated March 16th last, their request for the acceptance of the proposed formula, and that the American Government has lent emphasis to the assurance to which it had already subscribed.

As regards the two points made by the Japanese Government relating to the Taonanfu-Jehol Railway and the line connecting a point thereon with a seaport, the American Government seems to think that they constitute new propositions and expresses regret that these questions should have been raised at a moment when it was hoped that the four Powers concerned were about to reach an agreement.

In particular the American Government appears to be of opinion that the point (1) namely Japan's desire in regard to the extension of the Taonanfu-Jehol Railway, is tantamount to a claim for an exclusive power of veto and is therefore contrary to the fundamental principles upon which the idea of the new Consortium is based. The Japanese Government, in making the point in question, were prompted by no desire of putting forward any new condition or demand. It was simply in order to avoid future misunderstanding that the point was raised as one of the actual examples of enterprises prejudicial to Japan's vital interests which formed the subject matter of the general assurances given by the American Government. The Japanese Government feel confident that as the question involved in this case comes within the scope of the general assurances, the Government of the Powers interested in the Consortium will, in the

spirit of mutual trust and friendliness, readily appreciate Japan's point of view. As to the point (2) the Japanese Government have raised it merely in order to set forth the circumstances in which they feel the need of assistance and cooperation of the Powers concerned in the actual construction of the Taonanfu-Jehol Railway and the line connecting a point thereon with a seaport.

In thus giving frank expression to their hope, the Japanese Government were inspired by no other desire than to make an appeal to the spirit of general cooperation which forms the foundation of the Consortium.

The Japanese Government, holding as they do the views as above enunciated, have no intention whatever of insisting upon obtaining the explicit assurances or consent of the American Government in regard to the two points above referred to. Their idea is simply to bring the Powers concerned to an understanding of their interpretation in these respects. Relying, however, upon the friendly spirit in which the American Government was good enough to reaffirm the fact that the general assurances to which it has already offered to subscribe are adequate enough to safeguard the interests of Japan, the Japanese Government would refrain from further insisting on the discussion of these points, and, in order to facilitate the formation of the New Consortium with the least possible delay, they would be satisfied at this juncture with bringing to the knowledge of the American Government their interpretation of these questions and will be prepared to lend their support to the conclusion of an arrangement between the banking groups concerned and to give it the necessary confirmation.

JAPANESE EMBASSY,
WASHINGTON, *May 8, 1920.*

27. Memorandum of the Department of State, May 8, 1920 replying to the Memorandum of the Japanese Embassy at Washington of the same date

The Government of the United States has been pleased to receive the Imperial Japanese Government's memorandum of May

8, 1920, in reply to that of the Government of the United States dated the 29th of the preceding month, and is deeply gratified to observe therefrom that the Imperial Japanese Government has no intention of insisting upon the explicit assurance or consent of the Government of the United States in regard to the two points raised by the Imperial Japanese Government with reference to the Taonanfu-Jehol Railway and the line connecting a point thereon with a seaport. The Government of the United States also takes note with sincere pleasure that the Imperial Japanese Government is prepared to lend its support to the conclusion of the arrangement between the banking groups concerned, and to give the arrangement the necessary confirmation upon the same terms as the Governments of the United States, Great Britain, and France have already done without conditions or provisos.

It is most gratifying to the Government of the United States that the underlying principles and policies of the new International Consortium are now so fully understood and agreed upon that the representatives of the banking groups may proceed to its formation and the consideration of the working details of its operation. The Government of the United States again can assure the Imperial Japanese Government that its sole aim in all the negotiations just completed has been to bring about an arrangement which would insure entire cooperation on the part of the interested governments on a basis which would be to their mutual advantage and for the lasting benefit of China. The Government of the United States looks forward with keen anticipation to the friendly cooperation under the Consortium arrangement, with entire confidence that such practical joint endeavor is the beginning of a new era of good will and accomplishment for both Governments.

DEPARTMENT OF STATE,
WASHINGTON, *May 8, 1920.*

28. Memorandum of the Japanese Embassy at London to the British Foreign Office, May 10, 1920, regarding the Japanese interpretation of interests in Manchuria and Mongolia

The Japanese Government have received the Memorandum of the British Government, dated April 28th, in reply to their

Memorandum of the 14th April last, and have carefully examined it.

The Japanese Government are happy to note that the British Government are much gratified with the readiness of the Japanese Government to forego, in reliance upon the assurances given in the Memorandum of the British Government, dated the 19th March last, their request for the acceptance of the proposed formula, and that the British Government have lent emphasis to the assurance to which they had already subscribed.

The Japanese Government are glad to learn further that the British Government are prepared to waive the objections which they had at one time offered to the exclusion from the Consortium of the two projected railway lines from Taonanfu to Chang-chun and from Taonanfu to Chengchiatun.

As regards the two points made by the Japanese Government relating to the Taonanfu-Jehol Railway and the line connecting a point thereon with a seaport, the British Government seem to think that they constitute new propositions, and express regret that these questions should have been raised at a moment when it was hoped that the four Powers concerned were about to reach an agreement.

In particular, the British Government appear to be of opinion that the point (1), namely, Japan's desire in regard to the extension of the Taonanfu-Jehol Railway, is tantamount to a claim for an exclusive power in veto, and is therefore contrary to the fundamental principles upon which the idea of the new Consortium is based. The Japanese Government, in making the point in question, were prompted by no desire of putting forward any new condition or demand. It was simply in order to avoid further misunderstanding that the point was raised as one of the actual examples of enterprises prejudicial to Japan's vital interest which formed the subject matter of the general assurances given by the British Government. The Japanese Government feel confident that, as the question involved in this case comes within the scope of the general assurances, the Governments of the Powers interested in the Consortium will, in the spirit of mutual trust and friendliness, readily appreciate Japan's point of view. As to the point (2) the Japanese Government

have raised it merely in order to set forth the circumstances in which they feel the need of the assistance and cooperation of the Powers in the actual construction of the Taonanfu-Jehol Railway and the lines connecting a point thereon with a seaport.

In thus giving a frank expression to their hope, the Japanese Government were inspired by no other desire than to make an appeal to the spirit of general cooperation which forms the foundation of the Consortium.

The Japanese Government, holding as they do the views as above enunciated, have no intention whatever of insisting upon obtaining the explicit assurances of consent of the British Government in regard to the two points above referred to. Their idea is simply to bring the Powers concerned to an understanding of their interpretation in these respects. Relying, however, upon the friendly spirit in which the British Government were good enough to reaffirm the fact that the general assurances to which they have already offered to subscribe are adequate enough to safeguard the interests of Japan, the Japanese Government would refrain from further insisting upon the discussion of these points and, in order to facilitate the formation of the new Consortium with the least possible delay, they would be satisfied at this juncture with bringing to the knowledge of the British Government their interpretation of these questions, and will be prepared to lend their support to the conclusion of an arrangement between the banking groups concerned and to give it the necessary confirmation.

JAPANESE EMBASSY,
LONDON, *May 10, 1920.*

29. Letter from the President of the Yokohama Specie Bank to Mr. Thomas W. Lamont, May 11, 1920, accepting proposed Consortium Agreement

Tokyo, Japan,
May 11, 1920.

MR. THOMAS W. LAMONT,
J. P. MORGAN & CO.,
The Representative of the American Group.

You will recall that upon the organization of the Consortium at Paris, on May 11 and 12, last, the representatives of the

Japanese, American, British and French Banking Groups attached their signatures to the resolutions and Agreement subject to the approval of their respective Governments. You will further recall that, upon the instructions of the Japanese Government, our Banking Groups addressed you a letter dated 18th June last as regards the conditions of accepting the new Consortium agreement.

We have now the honor to inform you that certain points in the Agreement and in the operations of the proposed Consortium, hitherto somewhat obscure, having been cleared up to the satisfaction of our Government and of ourselves, we are now able in accordance with the instructions of the Japanese Government to withdraw our letter dated 18th June last and announce that, conjointly with the American, British and French Banking Groups and on like terms with them, we will accept the Consortium agreement. We beg at the same time to express our hearty concurrence with the general ideas and objects of the Consortium in respect to China.

Very truly yours,

(Signed) NAKAJI KAJIWARA,
*The President of the Yokohama Specie Bank,
For and on behalf of the Japanese Group.*

30. Reply of Mr. Thomas W. Lamont, May 11, 1920, to the letter of the President of the Yokohama Specie Bank of the same date

Tokyo, Japan,
May 11, 1920.

N. KAJIWARA, Esquire,
Tokyo, Japan.

Dear Sir:

We beg to acknowledge with thanks, the receipt of your communication of May 11th, 1920, informing us, in behalf of the Japanese Banking Group that, under the instructions of your Government, you have now withdrawn your letter dated June 18th, 1919, and have adopted, in association with the Banking Groups of America, Great Britain and France and on like terms with them, the agreement for the establishment of a new Consortium in respect to China.

We are happy to note that certain points that had hitherto been somewhat obscure to your Group and to your Government have now been made plain, and we trust with you that the way is clear for the Consortium to undertake operations.

Inasmuch as some questions have arisen during our discussions as to the status of specific railway enterprises contemplated or actually begun in Manchuria and Mongolia, we hereby confirm that we have agreed with you as follows:

(1) that the South Manchurian Railway and its present branches, together with the mines which are subsidiary to the railway, do not come within the scope of the Consortium;

(2) that the projected Taonanfu-Jehol Railway and the projected railway connecting a point on the Taonanfu-Jehol Railway with a seaport are to be included within the terms of the Consortium Agreement;

(3) that the Kirin-Huining, the Chengchiatun-Taonanfu, the Changchun-Taonanfu, the Kaiyuan-Kirin (via Hailung), the Kirin-Changchun, the Sinminfu-Moukden and the Ssupingkai-Chengchiatum Railways are outside the scope of the joint activities of the Consortium.

The foregoing letter of acknowledgment, although written in behalf of the American Banking Group, has, we are assured, the cordial approval of the British and French Banking Groups, also of the Governments of the United States, of Great Britain and of France.

Pray be good enough to present our regards to your colleagues in the Japanese Banking Group and our best wishes for the success of the joint Four-power Undertaking.

Very truly yours,

(Signed) THOMAS W. LAMONT,

For and in behalf of the American Group.

31. Memorandum of the British Foreign Office to the Japanese Embassy at London, May 17, 1920, declaring unwillingness to countenance operations inimical to Japanese interests in Manchuria and Mongolia

His Majesty's Government have the honor to acknowledge the Memorandum which the Japanese Ambassador handed to His Majesty's Principal Secretary of State for Foreign Affairs on the 10th instant.

His Majesty's Government are much gratified to learn that the Imperial Japanese Government in recording in point (1) of their Memorandum of the 14th April Japan's view in regard to the extension of the Taonanfu-Jehol Railway, were prompted by no desire to put forward any new condition or demand, and they are glad to note that their ally is satisfied that His Majesty's Government have no wish to do anything which would conflict with their vital interests. As regards point (2) His Majesty's Government are happy to note that it was merely raised in order to set forth the circumstances in which the Imperial Government felt the need of the assistance and cooperation of the Powers concerned in the actual construction of the railway from Taonanfu to Jehol and thence to the sea. They appreciate the fact that in thus giving a frank expression to their hope, the Japanese Government were inspired by no other desire than to make an appeal to the spirit of general cooperation which forms the foundation of the Consortium, and which it is hoped will at all times inspire its operations, and that they do not ask for explicit assurances in regard to the two points referred to above.

His Majesty's Government are happy on their part to reaffirm the general assurance to which they declared their willingness to subscribe in the Memorandum which Lord Curzon sent to Viscount Chinda on the 19th March, to the effect that the Japanese Government need have no reason to apprehend that the Consortium would direct any activities, affecting the security of the economic life and national defence of Japan, and that the Japanese Government can firmly rely on the good faith of the Powers concerned to refuse to countenance any operations inimical to such interests.

His Majesty's Government gladly note that the Imperial Government rely on the friendly spirit in which they have offered to renew their assurance, and they are most gratified to find that, in view of the complete understanding now effected between the Governments concerned in regard to the principles upon which the Consortium will operate, the Japanese Government are prepared to lend their support to the conclusion of an arrangement between the banking groups and to give it the necessary confirmation.

In conclusion, His Majesty's Government would express the hope that the Japanese group will immediately receive the required authorization, in order that the Consortium, which promises such great and enduring benefits to all the countries concerned, may be established and set in motion with the least possible delay.

FOREIGN OFFICE, *May 17, 1920.*

32. Memorandum of the French Ministry of Foreign Affairs to the Japanese Embassy at Paris, May 25, 1920

L'Ambassade impériale du Japon à Paris a bien voulu le 10 de ce mois communiquer au Ministère des Affaires Etrangères une note remise au Département d'Etat à Washington par l'Ambassade du Japon d'où il résulte que le Gouvernement de Tokio, prenant acte des assurances contenues dans la note du Département d'Etat en date du 16 Mars dernier et jugeant inutile dans ces conditions l'insertion des clauses spéciales visant la ligne Taonanfu-Jehol et son embranchement vers la mer, se déclare prêt à accorder son appui à la conclusion entre les groupes financiers intéressés de l'arrangement reconstituant le Consortium financier en Chine. Le Ministère des Affaires Etrangères a l'honneur de faire savoir à l'Ambassade du Japon qu'il s'associe volontiers aux assurances générales fournies par le Gouvernement américain. Il est heureux de pouvoir se féliciter avec elle de la conclusion d'un accord qui assure, pour le plus grand bien de la Chine, la collaboration amicale des Puissances intéressés.¹

¹The Imperial Embassy of Japan at Paris has kindly communicated on the 10th instant to the Ministry of Foreign Affairs a note despatched to the Department of State at Washington by the Embassy of Japan, from which it appears that the Government of Tokyo, taking cognizance of the assurances contained in the note of the Department of State under date of March 16 last, and deeming useless under the circumstances the insertion of the special clauses providing for the Taonanfu-Jehol line and its branching off toward the sea, declares itself ready to give its support to the conclusion by the interested financial groups of the arrangement reconstituting the financial Consortium in China. The Ministry of Foreign Affairs has the honor to inform the Embassy of Japan that it gladly joins in the general assurances furnished by the American Government. It is happy that it can congratulate itself, together with the Embassy, upon the conclusion of an agreement which assures the friendly cooperation of the interested Powers for the greatest good of China.

33. Joint Note of the British, American, French and Japanese Legations at Peking to the Chinese Foreign Office, September 28, 1920, setting forth the scope and objects of the proposed Consortium

Excellency :

The Governments of France, Japan, the United States of America and Great Britain, considering that the time has now arrived to make a joint communication to the Chinese Government on the proposed scope and objects of the so-called new Consortium which has been under discussion between the four Governments for some time past, the undersigned representatives of France, Japan, the United States of America and Great Britain have the honor to state as follows :

In the course of 1918 the United States Government informed the other three Governments in question of the formation in the United States of America of an American Group of Bankers for the purpose of rendering financial assistance to China. The principles underlying the formation of the American Group were that all preferences and options for loans to China held by any members of this group should be shared by the American Group as a whole and that future loans to China having a Governmental guarantee should be conducted in common as group business, whether these loans were for administrative or for industrial purposes.

In notifying the other three Governments of these proposals the United States Government recognized that the war had created such a mutuality of interests between certain Governments and peoples as to render this cooperation essential to any constructive programme of financial assistance to China. It was suggested therefore that the other Governments which were largely interested in China and in a position at the time to render such assistance—viz., France, Japan and Great Britain—might be willing to join with the United States in its proposed plan and consent to the formation of similar national Groups organized on the same basis to act in cooperation with the American Group. In the proposal of the United States Government which in practice envisaged a reconstruction of the old Consortium it was specifically stated that there was no intention of interfering with any of the rights of that Consortium. The hope was expressed

however that the new national Groups formed might be made so broad as to include the members of the former Consortium as well as others who had legitimate claims to such inclusion, so as to meet the larger needs and opportunities of China in a spirit of harmony and of helpfulness rather than of harmful competition and self-interest.

The proposal of the United States Government as here outlined received the most careful and friendly consideration on the part of the French, Japanese and British Governments which resulted in a meeting to be held in Paris on May 11 and 12, 1919, at which the chief Representatives of the Four Groups were present to discuss the financial details of the proposed arrangement as well as the scope and limit of their activities.

A draft arrangement between the four Groups was then drawn up embodying *inter alia* the principles of the American proposals. While it is not the intention of the present Note to do more than outline the broad aspects of the question or to enter into financial details which await confirmation by the Groups at the forthcoming inter-group meeting to be held in New York in October next, we consider it advisable to make the position clear in regard to an essential point which might otherwise give rise to misapprehension, namely the amount of support to be given by the respective Governments to their national groups or to the Consortium as a whole.

It is to be understood that the Governments of each of the four participating Groups undertake to give their complete support to their respective national Group members of the Consortium in operations undertaken pursuant to the inter-group arrangement entered into by the bankers at Paris, which arrangement in turn relates to existing and future loan agreements involving the issue for subscription by the public of loans having a Chinese Government guarantee subject to the proviso that existing agreements for industrial undertakings upon which substantial progress has been made may be omitted from the scope of the arrangement.

A collection of documents which have passed between the Governments interested in the Consortium as well as certain letters exchanged between the American and Japanese Group representatives which are herewith enclosed will enable the Chinese Gov-

ernment to follow the course of the negotiations and understand the whole position.

In making this communication to Your Excellency the undersigned venture to reiterate the earnest hope of their respective Governments for the early consummation of a united Government in China so that the new Consortium may eventually be enabled to give practical expression to the desires of the four Governments concerned to assist in the future development of this country.

We avail, etc.

(Signed) A. BOPPE.
Y. OBATA.
C. R. CRANE.
R. H. CLIVE.

34. Text of the China Consortium Agreement, October 15, 1920

AN AGREEMENT made the fifteenth day of October, 1920, between

THE HONGKONG AND SHANGHAI BANKING CORPORATION, having its office at 9 Gracechurch Street in the City of London (hereinafter called "the Hongkong Bank") of the first part

THE BANQUE DE L'INDO CHINE having its office at 15bis Rue Laffitte Paris (hereinafter called "the French Bank") of the second part

THE YOKOHAMA SPECIE BANK LIMITED having its office at Yokohama in Japan (hereinafter called "the Japanese Bank") of the third part and

MESSRS. J. P. MORGAN & Co., MESSRS. KUHN LOEB & Co., THE NATIONAL CITY BANK OF NEW YORK, CHASE NATIONAL BANK, NEW YORK, THE GUARANTY TRUST COMPANY OF NEW YORK, MESSRS. LEE, HIGGINSON & Co. OF BOSTON and the CONTINENTAL AND COMMERCIAL TRUST AND SAVINGS BANK OF CHICAGO (hereinafter called "the American Managers") acting as to the United Kingdom by Messrs. Morgan, Grenfell & Co., of 22 Old Broad Street in the City of London and as to France by Messrs. Morgan Harjes & Co. of Paris of the fourth part

WHEREAS the Hongkong Bank the French Bank the Japanese Bank and the American Managers are acting for the purposes of this agreement as the representatives of the British, French, Japanese and American Groups respectively

AND WHEREAS the British, French, Japanese and American Groups were formed with the object of negotiating and carrying out Chinese loan business

AND WHEREAS their respective Governments have undertaken to give their complete support to their respective national groups the parties hereto in all operations undertaken pursuant to the agreement hereinafter contained and have further undertaken that in the event of competition in the obtaining of any specific loan contract the collective support of the diplomatic representatives in Peking of the four Governments will be assured to the parties hereto for the purpose of obtaining such contract

AND WHEREAS the said national groups are of the opinion that the interests of the Chinese people can in existing circumstances best be served by the cooperative action of the various banking groups representing the investment interests of their respective countries in procuring for the Chinese Government the capital necessary for a programme of economic reconstruction and improved communications

AND WHEREAS with these objects in view the respective national groups are prepared to participate on equal terms in such undertakings as may be calculated to assist China in the establishment of her great public utilities and to these ends to welcome the cooperation of Chinese capital

NOW IT IS HEREBY AGREED by and between the parties hereto as follows:

1. EACH GROUP reserves to itself the right of increasing or reducing the number of its own members but so that any member of a group dropping out shall remain bound by the restrictive provisions hereof and any member of a group coming in shall become subject to the restrictive provisions hereof and so that no group shall (without the consent of the others) be entitled to admit into its group a new member who is not of its nationality and domiciled in its market. The admission of any new group shall be determined by the parties hereto subject to the approval of their respective Governments.

2. THIS AGREEMENT relates to existing and future loan agreements which involve the issue for subscription by the public of loans to the Chinese Government or to Chinese Government Departments or to Provinces of China or to companies or corpo-

rations owned or controlled by or on behalf of the Chinese Government or any Chinese Provincial Government or to any party if the transaction in question is guaranteed by the Chinese Government or Chinese Provincial Government but does not relate to agreements for loans to be floated in China. Existing agreements relating to industrial undertakings upon which it can be shown that substantial progress has been made may be omitted from the scope of this Agreement.

3. THE existing Agreements and any future loan agreements to which this Agreement relates and any business arising out of such agreements respectively shall be dealt with by the said groups in accordance with the provisions of this Agreement.

4. THIS Agreement is made on the principle of complete equality in every respect between the parties hereto and each of the parties hereto shall take an equal share in all operations and sign all contracts and shall bear an equal share of all charges in connection with any business (except stamp duties and any charges of and in connection with the realization by the parties hereto in their respective markets of their shares in the operations) and the parties hereto shall conclude all contracts with equal rights and obligations as between themselves and each party shall have the same rights, privileges, prerogatives, advantages, responsibilities and obligations of every sort and kind. Accordingly preliminary advances on account of or in connection with business to which this Agreement relates shall be borne by each of the parties hereto in equal shares and each of the parties hereto shall be entitled to participate equally in the existing Agreements and will offer to the other parties hereto an equal participation with itself in any future loan business falling within the scope of this Agreement. Should one or more of the parties hereto decline a participation in the existing Agreements or any of them or in any such future loan business as aforesaid the party or parties accepting a participation therein shall be free to undertake the same but shall issue on its or their markets only.

5. ALL CONTRACTS shall so far as possible be made so as not to impose joint liability on the parties hereto but each of the parties hereto shall severally liquidate its own engagements or liabilities. The parties hereto will so far as possible come to an understanding with regard to the realization of the operations

but so that such realization in whatever manner this may take place shall be for the separate benefit of each of the parties hereto as regards their respective participations therein and so that each of the parties hereto shall be entitled to realize its participation in the operations only in its own market it being understood that the issues in the respective markets are to be made at substantial parity.

6. ANY one or more of the parties hereto who shall have accepted its or their participation in any business hereunder shall be entitled by notice in writing to call upon the other or others of the parties hereto who propose to issue their own respective participations to issue for the account of the party or parties giving such notice or notices either all or one-half of the amount which may constitute the participation of the party or parties giving such notice or notices and the party or parties so called upon shall issue the said amount or amounts (hereinafter called "the Residuary Participation") specified in such notice or notices upon and subject to the terms and conditions following, viz:

- (1) Such notice or notices must be received by the other or others of the parties hereto before the execution of the final Agreement for the issue of the loan or (in the case of an issue of a part only of the loan) of so much thereof as the parties hereto may from time to time agree to issue.
- (2) The party or parties to whom such notice or notices shall have been given shall be entitled to decide among themselves and without reference to the party or parties giving such notice or notices as to which one or more of them shall issue the Residuary Participation but in default of any such decision they shall issue the same equally between them.
- (3) In issuing the Residuary Participation no distinction shall be made between the Residuary Participation and the amount or amounts issued on its or their own account by the party or parties issuing the Residuary Participation which shall in all respects be subject to the conditions of the respective Syndicates which may be formed for the purpose of effecting the issue.

- (4) Each of the parties issuing the Residuary Participation shall be entitled to decide for itself and without reference to the party or parties giving such notice or notices as to what expenses shall be incurred in relation to the issue of the total amount issued by such party.
 - (5) The party or parties issuing the Residuary Participation shall be entitled between them to charge the party or parties giving such notice or notices with a commission of not exceeding $1\frac{1}{2}$ per cent. on the nominal amount of the Residuary Participation and also with a pro rata share of the total expenses which the issuing party or parties may in their sole discretion incur in relation to the whole issue and being in the proportion which the Residuary Participation bears to the total nominal amount of the issue.
 - (6) The party or parties issuing the Residuary Participation shall not by virtue of this Agreement incur any responsibility to subscribe for the Residuary Participation or to cause the same to be subscribed.
 - (7) Each party issuing the Residuary Participation shall apply all subscriptions received by it pro rata between the Residuary Participation issued by it and the amount issued by such party on its own account.
 - (8) Each of the parties issuing the Residuary Participation will apply for and use its best endeavours to obtain a quotation on its market for the total amount issued by it.
 - (9) No issue of the Residuary Participation or any part thereof shall be made by the party or parties giving such notice or notices unless mutually agreed by the parties hereto.
7. No participation shall be given by any one of the parties hereto outside its own market. Any participation given in its own market by any one of the parties hereto shall be for its own account only or in the event of the issue including any of the Residuary Participation for the accounts pro rata of the issuing Bank and the party or parties giving such notice or notices as aforesaid and in giving any such participation the party giving

the same shall use its best endeavours to secure that no part of such participation shall be transferred to parties outside the market of the party giving the same. Any other participation shall be given only with the consent of all parties hereto and shall be borne in equal shares by the parties hereto.

8. THIS Agreement shall remain in force for the period of five years from the date hereof provided nevertheless that a majority of the parties hereto may by twelve months' previous notice in writing addressed to the other parties hereto determine this Agreement at any time.

IN WITNESS whereof the duly authorized representatives of the respective parties hereto have set their hands the day and year first above written.

For the Hongkong and Shanghai Banking Corporation

On behalf of the British Group:

C. S. ADDIS.

For the Banque de L'Indo-Chine

On behalf of the French Group:

TH. DE LA CHAUME.

For the Yokohama Specie Bank, Ltd.

On behalf of the Japanese Group:

K. TAKEUCHI.

For and on behalf of the American Group:

J. P. MORGAN & Co.

KUHN, LOEB & Co.

THE NATIONAL CITY BANK OF NEW YORK,

By J. A. STILLMAN,

President.

The GUARANTY TRUST COMPANY OF NEW YORK,

By J. R. SWAN,

Vice President.

CONTINENTAL AND COMMERCIAL TRUST AND SAVINGS
BANK, CHICAGO,

By JOHN JAY ABBOTT,

Vice President.

CHASE NATIONAL BANK, NEW YORK CITY,

By A. H. WIGGIN,

Chairman.

LEE, HIGGINSON & Co.

35. Joint Note of the American, British, French and Japanese Legations at Peking to the Chinese Foreign Office, January 13, 1921, announcing the signing of the Consortium Agreement

January 13, 1921.

Monsieur le Ministre,

The undersigned Representatives of America, Great Britain, France and Japan have the honor to inform Your Excellency that an agreement on the lines tentatively adopted in May, 1919, at Paris by the representatives of the investing public of the countries above mentioned, covering the formation of a new Consortium for the assistance of China by providing the capital required for constructive works, has now been confirmed at New York by the signatures of duly accredited representatives of the four Banking Groups, and that this International association thus coming into existence under the name of the Consortium has received the full approval of the four Governments interested.

The text of the Consortium agreement signed on October 15, 1920, at the recent conference in New York, is being communicated by the Group Banks' representatives to the Ministries of Finance and Communications.

We avail ourselves of this opportunity to offer Your Excellency the renewed assurance of our highest consideration.

(Signed) CHARLES R. CRANE.
B. ALSTON.
MAUGRAS.
Y. OBATA.

His Excellency

MONSIEUR YEN HUI-CH'ING,
Minister for Foreign Affairs,
etc., etc., etc.

36. Letter of the Department of State to J. P. Morgan and Company, March 23, 1921, expressing approval of the objects and scope of the Consortium

March 23, 1921.

MESSRS. J. P. MORGAN AND COMPANY,
For the American Group,
23 Wall Street, New York.

Gentlemen:

I have received the letter of March 10, 1921, in which you request that I advise you whether the policy of the Department of State, in encouraging American interests in the assistance of China through the operations of the international Consortium, is in accord with my views and therefore receives my approval; and in which you state that the operations of the Consortium are in no way designed to interfere with the private initiative of our nationals or those of any other country, that it does not propose to undertake any mercantile, industrial or banking projects, but plans only to help China in the establishment of her great public utilities such as the building of her railways, canals, et cetera, thereby assisting in stabilizing China economically and financially, and making that field a safer one for the initiative of our citizens in private enterprises in commerce, industry, et cetera.

In reply I am happy to advise you that the principle of this cooperative effort for the assistance of China has the approval of this Government, which is hopeful that the Consortium constituted for this purpose will be effective in assisting the Chinese people in their efforts towards a greater unity and stability, and in affording to individual enterprises of all nationalities equality of commercial and industrial opportunity and a wider field of activity in the economic development of China.

I am, Gentlemen,

Your obedient servant,
(Signed) CHARLES E. HUGHES.

